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China Report

ECONOMIC AFFAIRS

SOCIALIST PRICE PROBLEMS

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CHINA REPORT
ECONOMIC AFFAIRS
SOCIALIST PRICE PROBLEMS
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Beijing SHEHUIZHUYI JIAGE WENTI [SOCIALIST PRICE PROBLEMS] in Chinese

[Table of Contents, Chapters 2, 3, 4 and 5, and 4 of 8 Appendices of book by Xu Yi [6079 3015], Chen Baosen [7115 1405 2773] and Liang Wuxia [2733 3541 3838], published by Chinese Finance and Economics Press, 1982]

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Chapter 2. Agricultural Product Pricing Problems

1. The Important Position of Agricultural Product Prices in the National Economy and China's Accomplishments in Agricultural Product Price Policies

Agriculture is the foundation of the national economy. The fairness of agricultural product prices has an extremely great effect on the entire national economy. This importance may be capsulized in three ways: (1) Fair prices for agricultural products help consolidate the political alliance between industry and agriculture and promote social stability and unity. (2) Equitable prices for agricultural products take into simultaneous account the welfare of the peasants, urban staff members and workers, and the country; they help advance agricultural production and the reproduction of the whole society, and result in a benign cycle for the national economy. (3) The prices of agricultural products affect the whole price structure, and equitable prices for agricultural prices are an important basis for the rationalization of all prices.

On the first point, Comrade Mao Zedong said the following in discussing the alliance between China's working class and peasant class: The period of the democratic revolution is a period of "alliance in opposition to landlords, overthrowing of local tyrants and dividing up of farmland. This is the first alliance. Once this task has been completed and the peasants feel unfulfilled, a new period of alliance is entered upon." This is "to lead the peasants to take the path of socialism that will enable the peasant masses to prosper in common . . . and the extent of their prosperity will greatly exceed that of the prosperous peasants of the present."¹ The peasants' prosperity will derive mostly from taking the socialist road for development of agricultural production; however, it will also depend on industry and agriculture assisting each other. This means peasant exchange of agricultural products with the state in return for industrial consumer goods and the means of production. In this connection, equitable prices for agricultural products become a powerful lever for advancing exchanges between cities and the countryside and for making the rural economy flourish. During the period of socialist transformation, the state relies on equitable prices for agricultural products as a foundation for instituting planned monopoly procurement and monopoly marketing, taking grain and industrial raw materials from the peasants, and it blocks the capitalist road whereby the bourgeoisie engages in free markets, free acquisition of raw materials and free marketing of industrial manufactures, to achieve victory for socialist transformation. In the subsequent process of building socialism, continued reliance will be placed on equitable pricing policies and procurement policies, taking grain and industrial raw materials from the hands of the peasants to support constantly expanding industrialized construction. Ordinarily, it is not easy for people to perceive the positive role of equitable policies; they simply feel that that is only as it should be. It is only after these policies have been destroyed and unpleasant consequences ensue that people genuinely understand their significance. The "tendency to effect the transition to

¹ "Selected Works of Mao Zedong," Vol 5, p 197.

communism prematurely," and the "egalitarianism and transfer" during the "Great Leap Forward" period made us realize that the negation of exchange at equal price [deng jia jiashuan 4583 0305 0074 2255] dampened peasant enthusiasm for production and dealt a setback to agricultural production. Moreover, the shriveling of production and the abrupt rise in the prices of agricultural products made us realize the straitened situation in which urban staff member and worker production and standard of living could be normally conducted only with difficulty. These things taught us a bitter lesson and made everyone understand just what great significance equitable prices for agricultural products holds for consolidation of the political alliance between industry and agriculture, and for stability and unity.

On the second point, equitable prices for agricultural products must be prices that take into consideration simultaneously the interests of producers, consumers and the state. In years of normal harvests, such prices are able to improve peasant standards of living year after year, and not only assure smooth carrying out of simple agricultural reproduction, but also enables agriculture to expand reproduction yearly. Such prices enable urban staff members and workers to obtain basic means of livelihood that are both cheap and attractive and enable industrial plants and enterprises to obtain ample supplies of fine-quality raw materials. Such prices also enable the country to derive fund accumulations for use in socialist construction from the exchange of industrial and agricultural products. In the history of the international communist movement, once the proletariat had seized power and established a socialist society, it twice experienced failure in handling commodity exchange relationships with peasants. One was a low-price policy. This is to say that in order to hasten industrialization, it killed the peasant goose that had laid the golden eggs by making exorbitant demands. For example, during the early 1950's, the USSR committed the error of holding down prices for agricultural products without concern for the peasants' welfare. The price set in 1952 for obligatory peasant sales of wheat to the state was only 19 percent higher than in 1929, while the retail price for wheat in state-owned enterprises was more than 10 times the 1929 price. During 1952 and 1953, the price paid for grain was only 10 percent of costs, and the price paid for meat was only 5 percent of costs. The result of this action was to dampen peasant enthusiasm for production, and agricultural production stagnated. During the early 1950's, average per capita grain yields in the USSR were lower than in 1913. Every East European country that followed the USSR obligatory sale system encountered substantially the same problem, and they had no choice but to trim their sails to fit the winds. Low price policies for agricultural products not only hurt agriculture but the whole national economy as well. For lack of a developed agricultural foundation, urban industries could not get ample raw materials, and urban people could not get sufficient food. This inevitably exerted a drag on industry and impaired the speed of development of the entire national economy.

The other experience with failure involved institution of high price policies without regard for national capabilities. Poland is an example. In order to promote a three-high policy of "high speed, high waves, and high welfare," and out of anxiousness to increase supplies of food and meat, after having abolished the obligatory sales system, it annually increased procurement prices

paid for agricultural products. It also instituted a system of free medical care, retirement pensions, and old age pensions in the countryside as a result of which production costs for basic food items increased greatly. In order to make agricultural production profitable, it had no choice but to further raise procurement prices paid for agricultural products. Moreover, in order to keep workers' real income stable, retail prices for agricultural products were kept as is, resulting in a serious inversion of procurement and marketing. For example, the Polish procurement price for cow's milk was one-fourth higher than the sale price. State subsidization of agricultural products took 40 percent of the national budget. Under these circumstances, there was no accumulation of funds for construction or for expansion of reproduction worth talking about. Clearly, both an unfairly low price policy and an unfairly high price policy for agricultural products can only create a vicious cycle in the national economy, and only a fair price policy for agricultural products can promote healthy and stable development of the national economy.

On the third point, procurement prices paid for agricultural products is the basis for all market prices. Most of the commodities that circulate in markets within the country are consumer goods, followed by the agricultural means of production supplied to rural villages. Consumer goods include agricultural products and industrial products. Industrial consumer goods include those goods that use either manufactured goods or agricultural products as raw materials. In some cases, the role of procurement prices paid for agricultural products is decisive with regard to the circulation of these consumer goods and agricultural means of production in domestic markets; in other cases, it has a major effect.

Procurement prices paid for agricultural products determine the sale price of that portion of agricultural products that enter the market directly or that enter the market after simple processing. People have to eat every day, and the sale price of grain, that most basic means of livelihood, is controlled by the procurement price paid for grain. The sale price of nonstaple foods supplied by markets is also controlled by the procurement prices paid for agricultural products. Increase in the procurement price paid for live hogs will also affect the sale price of pork. Though we sometimes increase the procurement price paid without raising the sale price in order not to add to the burdens of staff members and workers, the country has to bear the loss in providing a financial subsidy to the commercial sector.

To a very large degree, the procurement price of agricultural products determines the price of light industrial manufactures, and it particularly determines the sale price of those light industrial manufactures that use agricultural products as raw materials. As far as light industrial enterprises are concerned, the price of industrial consumer goods that use agricultural products as raw materials must compensate payments made for materials consumed, and this portion of payments is determined largely by the price of agricultural raw materials. Consequently, the purchase price of agricultural raw materials such as cotton, hemp, silk, sugar, wool, moso bamboo, or timber, must strongly affect the price of these kinds of light industrial manufactures. Furthermore, the price of light industrial manufactures must compensate producer payments for required labor consumed, i.e., wage payments.

Once prices of agricultural and sideline products increase, the state must subsidize staff members and workers. All payments for labor to temporary workers must also be raised correspondingly, thereby increasing product cost. Naturally, enterprises have to increase the sale price of products that bring low profits or losses. If planned prices may not be raised, the enterprise will have to halt production of any lines on which it incurs losses.

Though heavy industrial manufactures usually do not use agricultural products as raw materials, the effect of wages and payments for labor to produce agricultural and sideline products will have a corresponding effect on heavy industrial manufactures. This is particularly true in the case of extraction and logging industries such as in the coal, iron, nonferrous metals and timber sectors. Since the ratio of live labor in costs is far higher than materialized labor, increase in wages and payments for labor will inevitably have a very great effect on costs, forcing enterprises to raise prices. In addition, a portion of the raw materials used in heavy industrial manufactures are also agricultural products or light industrial manufactures that use agricultural products as raw materials, such as cotton cloth or oil used in industry. Thus, changes in the price of these raw materials or supplementary materials must have an effect on the price of heavy industrial manufactures.

Payments for communications and transportation labor are also closely related to the price of agricultural products. In particular, the price of agricultural products is exceptionally sensitive to prices paid for the use of unmodernized transportation equipment for short hauls. This is because payments for the materials used (such as bamboo, wood, animals, and fodder) and payments for wages to transportation workers (most of whom are workers in a collective system of ownership or peasants doubling as transportation workers) are closely bound up with the price of agricultural products.

Clearly the effect of prices of agricultural products on the entire market price structure is very considerable. Fluctuations in the prices of agricultural products may give rise to fluctuations in all market prices. If agricultural production is firmly taken in hand and costs steadily lowered, price ratios of various agricultural products arranged properly, and the price of principal agricultural products kept stable, the price ratios of other light industrial and heavy industrial manufactures may also be equitably arranged relatively easily. If agricultural production is not firmly taken in hand and costs steadily rise, the price ratios of different agricultural products being jumbled, and the price of principal agricultural products being forced steadily upward, then the price of light and heavy industry manufactures will frequently be unstable despite emphatic planning and management, giving rise to turmoil in the whole price system. Possibly the state may attempt to use financial subsidies to reduce the impact of agricultural product price fluctuations on prices in other sectors and on the lives of the people. If so, that will result in an inversion of many procurement and market prices or even develop into a kind of lopsided price structure that will effect social reproduction unfavorably.

Since the founding of the nation, we have come to understand clearly the important impact of agricultural product prices on the overall national economy,

and we have adopted correct policies as a result of which very great achievements have been made in agricultural product pricing work. This has been manifested primarily in the following regards:

First has been an equitable readjustment of prices for agricultural products under an overall program of stable prices, reducing or eradicating the price scissors [jiage jiandaocha 0305 2706 0477 0430 1567] between industrial and agricultural products. Internal price parity relationships for agricultural products have tended to become fairer as a result.

Up until the time of liberation, an inequitable situation existed in exchanges between industrial and agricultural products. Imperialists and bureaucratic capitalists used their monopoly position over industry to exploit the dis-united individual peasants in exchanges of industrial for agricultural products, producing a price scissors between industrial and agricultural products. The peasants commonly bought at a high price and sold at a low price and found themselves in an extremely disadvantageous position. Though contradictions existed between the national bourgeoisie and the imperialists and the bureaucratic capitalist class, they also exploited the peasants in the exchange of industrial for agricultural products. In short, up until the time of liberation, the price scissors between industrial and agricultural products was one of the ways in which imperialism and bureaucratic capitalism plundered the peasantry. It was one of the fundamental causes of the destruction of the rural economy and the poverty of the peasantry, and it was also one of the reasons for readjustment of the national economy.

After the people of the whole country under the leadership of the CPC toppled the three big mountains of imperialism, feudalism and bureaucratism, the conditions occasioning steady expansion of the price scissors between industrial and agricultural prices of the old era were abolished. The country adopted a policy of gradual reduction of the price scissors between industrial and agricultural products. It readjusted prices of industrial and agricultural products several times, increased procurement prices paid for agricultural products, and lowered the sale prices of industrial manufactures to support agriculture. With the narrowing of the price scissors between industrial and agricultural products, peasants gained more from their increased sales of agricultural products and paid less for their increasing purchases of industrial manufactures, thereby deriving very great benefits in price in the exchange of commodities. For example, during the period of the First 5-year Plan, peasant cash income resulting from increases in procurement prices paid for agricultural products amounted to 12.76 billion yuan. After deducting increased retail prices for industrial goods and increases in prices of agricultural products resold to producers by the state, the net profit was still 8.05 billion. As a result of state increase in procurement prices paid for agricultural and sideline products between 1979 and 1981, plus reduction of agricultural tax burdens in some places, peasants benefited to the tune of 52 billion yuan.

Simultaneous with the national increase in procurement prices for agricultural products was a readjustment of the internal price structure for agricultural products that made price ratios among major agricultural

products, such as grain, cotton, flue-cured tobacco, and sugarcane, tend to be more equitable and eased the way for institution of a policy of "taking grain as the key link with all-around development, suiting of general methods to specific circumstances, and appropriate centralization."

Second, a series of forms for procurement of agricultural products and corresponding price policies suited to China's circumstances were formulated.

Today, the country uses three methods in purchasing agricultural products, namely, monopoly procurement, assigned procurement and procurement at negotiated prices.

The policy of monopoly purchase and marketing of grain and vegetable oils began in 1954, and this policy was an important and integral part of the CPC general line during the period of transition. Institution of monopoly purchase and monopoly sales was for the purpose of solving the problems of market supplies of grain and oil being unable to keep up with demand after development of the national economy and a rise in the people's purchasing power. It also had as its goal a break in relations between rural and urban capitalism, making the production and sale of these products a part of the state plan, and restructuring spontaneous development of the power of rural capitalism. In this regard, the country directed that agricultural producers be required to sell their products to designated commercial organizations in accordance with national requirements, the state managing them centrally, with no other units or individuals being permitted to interfere. Once peasants had fulfilled monopoly procurement quotas, if remaining products were to be sold, cotton would have to be sold to the state, but grain and edible oils could be traded in country fair markets. In the institution of this policy, the state made particularly sure to institute correct price policies and to set equitable proportions between amounts to be purchased by the state and retained by producers.

Price policies used by the state in procurement of grain from peasants were based on the principle of exchange at equal price. The state formulated grain procurement prices in light of the country's historical grain price levels and in light of fair price ratios between grain and industrial manufactures, assuring that once they had sold their grain, peasants would be able to obtain the cash income they deserved. In 1979, it was again ruled that a higher price would be paid for all grain purchased after monopoly procurement quotas had been fulfilled. The state price for grain sold in rural villages would be based solely on purchase price plus business expenses, losses incurred during storage and taxes. Both procurement price and sale price remained unchanged throughout the year so that there would no longer be a situation such as existed in the old society whereby private grain traders would hold down prices when buying grain at the end of autumn only to raise prices when selling grain in spring, thereby exploiting the peasants both coming and going.

On the matter of proportionate amounts of grain to be sold to the state or retained by producers, following peasant discussion and approval, in each area the state set equitable amounts of grain for consumption by the peasants that

were based on grain production and consumption in individual areas. Peasants having a grain surplus were permitted to retain grain rations, seed grain and livestock feed for their own use, first of all, after which they were to sell most of their surplus grain to the state. The state provided all grain-short peasants with a fair amount of grain to compensate their shortage.

Assigned procurement began in 1955 with assigned procurement of live hogs. Later the system was extended to other agricultural products such as fresh eggs, jute and some medicinal herbs. In instituting assigned procurement of agricultural products, the state only assigned a specific sales quota for people's commune collectives and individual commune members, procurement to be done by designated commercial organizations at plan prices. Peasants could sell all surplus in country fair markets. Assigned procurement quotas were set following full consultations with peasants on the basis of needs and capabilities. Increased output would not result in increased procurement, and peasants were permitted to retain some hogs they could slaughter and consume themselves, could slaughter themselves and divide up for consumption, or slaughter themselves for sale. Historical practice and peasant consultation were used as a basis for determining procurement grades and setting prices; procurement departments were not permitted to lower grades or drive down prices.

Negotiated procurement. Negotiated procurement was used mostly for Category I products of maximum importance or relatively great importance to the national economy and the people's livelihood (grain, oil-bearing crops, and cotton), Category II goods (live hogs, fresh eggs), and noncommodity Category III goods, such as aquatic products, dry and fresh fruits, small local specialties, and Chinese medicines from nonmajor producing areas for which negotiated procurement prices were determined through discussions between commercial departments and agricultural producers. Category I and II commodities remaining after fulfillment of state monopoly procurement quotas might be purchased at negotiated prices following approval by the authorities concerned. The kinds, quantities, quality, price and time of sale of goods to be sold at negotiated prices were determined in consultations between buyers and sellers. Commercial units paid higher than list prices for products purchased at negotiated prices, following the principle of arriving at a price on the basis of quality. Contracts were also used to bring the production and circulation of negotiated price goods indirectly into the state plan.

Given China's current levels of industrial and agricultural development and the limitations that national financial resources impose, the three forms of procurement--monopoly procurement, assigned procurement, and procurement at negotiated prices--are rather good forms for guiding production and guiding exchange in a planned way in China today that the state is able to adopt and that the peasants are able to accept. They are a means of simultaneously taking into account both benefits for the peasants here and now and long-term benefits, and benefits for parts of the whole and the whole. These methods indirectly make agriculture a part of the state plan through the form of procurement and marketing, and they assure both the needs in the daily lives of the industrial and peasant classes and the needs of production, thereby remedying contradictions between growth in demand and inadequate supply. Implementation of this policy has been founded on the political and economic alliance of industry and agriculture that has been solidified under CPC

leadership. One view holds that monopoly procurement and assigned procurement are methods that had to be adopted because the country's prices for agricultural products are too low, resulting in supply being unable to meet demand. This view is worth discussing. The inability of supply to meet demand for agricultural products in China is a fact, but the fundamental reason is not overly low prices, but rather the extent to which the pace of industrial construction and speed of population growth have outstripped China's agricultural capabilities. Prices of the country's agricultural products may not be termed high, but are generally in accord with the principles of exchange at equal price and or nearly equal price. They may not be regarded in the same way as the low-price policy of the USSR of the 1950's. Increase in agricultural output without increase in earnings, and a decline in peasant standards of living characterized the 10 years of turmoil, but this may not be used as valid grounds for overly low prices for agricultural products in China during the past 30 years. The high-price policy for agricultural goods used in Poland cannot be used to solve the current conflict between supply and demand of agricultural products existing in China today. Such a policy would wreak havoc throughout the entire national economy. Nor is it possible to adopt the methods used in some socialist countries of permitting free markets for agricultural products, allowing the laws of market supply and demand to control prices of agricultural products. Such methods would result in a loss of control over prices and would bring about harmful consequences whereby a rise in prices for agricultural products would lead the way for successive rounds of price rises for industrial manufactures and agricultural products that would seriously damage social production and the people's standard of living. One cannot divorce oneself from concrete historical conditions when evaluating whether or not a particular policy is advantageous. Monopoly procurement, assigned procurement and procurement at negotiated prices are likewise suited to China's national circumstances and help development of industry and agriculture only when viewed in terms of various present conditions. With completion of the task of readjusting the national economy, movement of industrial and agricultural production in the direction of a benign cycle, increasing moderation of the conflict between supply and demand for industrial and agricultural products, and ample national financial and material reserves, both the price structure for industrial and agricultural goods, and forms of procurement and marketing will be further improved and developed.

China's agricultural price policies and the methods of procurement and marketing that have been used since liberation have been correct, and work achievements have been great. However, the road taken has indeed been a tortuous one, and many hazards have been encountered. There are also numerous problems in both theory and practice that still await solution.

During the past 30 years (1950-1980), China's agricultural production has developed greatly. Grain output has doubled; cotton output has increased 69 percent; oil-bearing crops output has grown 53 percent; output of sugar has increased 2.2-fold; meat production has increased 2.1-fold; and output of aquatic products has increased 1.6-fold. In 1979, peasant per capita income was 160.17 yuan versus 72.95 yuan in 1957, a 1.2-fold increase. When allowance is made for price increases, the rise has been approximately 1.07-fold.

However, in an overall sense, peasant living standards are still relatively low; the agricultural situation has changed slowly; and economic results have been low, in particular. Many places have increased yields without increasing earnings, and agricultural costs have tended to rise, exerting pressures on prices paid for agricultural products. How should these problems be viewed, and what methods should be used to solve them? This is a debatable question, and it is also a question that has to be conscientiously explored in terms of China's circumstances while borrowing from international experiences.

One view holds that inequitable prices are an important reason why China's agricultural production has not developed rapidly. Some people say that not only was the price scissors not eradicated following liberation, it was augmented. Thus, great readjustments must still be made in agricultural product prices. However, following the tremendous agricultural product price increases of 1979, the annual state financial subsidies have come to occupy an ever increasing proportion of the budget. As a result of price increases, negotiated prices have lost their usefulness for control, and already an abnormal situation has appeared in which the greater the increase in agricultural production, the greater state procurement of agricultural products, the larger the financial subsidies, and the more difficult the balance of public finances. Different views also exist as to whether a policy should be followed of using public funds to provide subsidies. Some people believe this way of doing things causes the country to shoulder a constantly increasing large burden, and that is using political methods to solve economic policies, which is not in keeping with the objective requirements of the law of value and should be changed.

Overall, the country's prevailing methods of procuring agricultural products suit current historical conditions, but quite a few real problems also exist. One example is the region-by-region monopoly procurement quotas that have been set historically that do not yet accord with realities despite 10 years of changes and that have created uneven burdens. The existence at one and the same time of parity prices, premium prices and negotiated prices has also posed numerous headaches for monopoly procurement quotas. Consequently, some people advocate the elimination of monopoly procurement base figures in a complete change to premium price procurement and gradual expansion of the scope of negotiated prices.

In addition, different views also exist about how to proceed from the characteristics of agricultural production to solve some special problems that arise in socialist agricultural product prices such as equitable distribution of differential earnings, correct calculation of compensation paid labor, standards for figuring agricultural products profit rates, and internal parity prices and differential prices for agricultural products.

Our thoughts on these problems are taken up below.

2. Price Ratios Between Industrial and Agricultural Products

Price ratios between industrial and agricultural products refer to the proportional relationship between the sale price of industrial manufactures

that the state provides rural villages and the procurement prices it pays for agricultural products, which is another way of saying that a certain amount of agricultural products can be exchanged for so much industrial manufactures. It reflects the relationship between industry and agriculture, between city and countryside, and between the state and the farflung peasant masses. As Comrade Mao Zedong said: To readjust prices is to readjust the economic and political relationships between workers and peasants, and between producers and consumers. Thus, it is a major issue relating to the alliance between industry and agriculture, to development of industrial and agricultural production, and to correct handling of long-range benefits versus present benefits and overall benefits versus benefits to part of the whole.

In old China, a price scissors existed between industrial and agricultural products. Ever since the Opium War, imperialists and the bureaucratic compradore capitalist class had controlled the national economy pulse, monopolized markets, and used the method of buying agricultural products at a low price while selling industrial manufactures at a high price to exploit and plunder the broad masses of peasants. This was manifested earliest in the exchange of imported and exported goods. Subsequently, it was simultaneously manifested in exchanges between domestic industrial manufactures and agricultural products. The amount of goods that could be imported for the same amount of exports between 1930 and 1932 was 24.85 percent less than between 1871 and 1875. The amount of industrial manufactures that could be obtained for the same amount of agricultural products in 1950 was 24.1 percent less than between 1930 and 1936.

The CPC led the people of the whole country in toppling the three big mountains to emancipate industry and agriculture. The price scissors between industrial and agricultural products that imperialists and bureaucratic capitalists in old China had used to exploit the workers and peasants lost its class foundation. Our party proceeded from concurrent concern for the interests of the country and the peasants in adopting a policy for narrowing the price "scissors" between industrial and agricultural products and policies for exchange at equal price or nearly equal price. In order to remedy the price scissors between industrial and agricultural products inherited from history, as the national economy developed and national strength was replenished, we raised procurement prices for agricultural products several times in a planned way, and lowered sales prices for farm machinery, chemical fertilizer, pesticides, and such industrial manufactures used in agriculture. The rise in procurement prices for agricultural products markedly quickened a rise in the sale prices of industrial manufactures. Changes in overall price ratios between industrial and agricultural products for the country as a whole during the past 30 years are shown in Table 1.

Table 1. Overall Price Ratio Changes Between Industrial and Agricultural Products for the Country as a Whole

Year	1)	2)	3)	
1930—36				100.0
1950	100.0	100.0	100.0	75.9
1951	119.6	110.2	108.5	82.4
1952	121.6	109.7	110.8	82.1
1953	132.5	108.2	122.5	91.3
1954	136.7	110.3	123.9	91.6
1955	135.1	111.9	120.7	89.8
1956	139.2	110.8	125.6	93.4
1957	146.2	112.1	130.4	96.9
1958	149.4	111.4	134.1	99.7
1959	152.1	112.4	135.3	100.6
1960	157.4	115.5	136.3	101.4
1961	194.4	121.2	160.4	119.3
1962	193.4	126.6	152.3	113.6
1963	188.2	125.3	160.4	111.6
1964	185.8	122.9	151.2	112.4
1965	185.1	118.4	156.3	112.2
1966	193.6	115.0	168.3	125.1
1967	193.6	114.1	169.7	126.1
1968	193.6	113.8	170.1	126.5
1969	193.6	112.1	172.7	128.4
1970	193.6	111.9	173.0	126.6
1971	195.9	110.2	177.8	132.2
1972	198.3	109.6	180.9	121.6
1973	199.5	109.6	182.0	135.4
1974	200.7	129.6	183.1	136.2
1975	201.3	109.6	183.7	136.6
1976	201.5	109.7	183.7	136.6
1977	201.7	109.8	183.7	136.6
1978	207.3	109.6	188.8	140.4
1979	242.7	109.9	220.8	164.3

Key:

- 1) Agricultural Product Procurement Price Index
- 2) Rural Industrial Products Retail Price Index
- 3) Overall Price Ratios Between Industrial and Agricultural Products
(Retail Price for Agricultural and Industrial Products is 100)

Table 1 shows the following: (1) Using 1950 as a base period, by 1979 procurement prices for agricultural products had climbed 142.4 percent, while rural industrial goods had climbed only 9.9 percent. In 1979, peasants could get 1.2 times as much industrial manufactures for the same amount of agricultural products as in 1950. (2) Using the period 1930-1936 as the base period, in 1958, the peasants could get only 0.3 percent of the

same amount of industrial manufactures as during the base period. Once the War of Resistance to Japan had begun, the price scissors between industrial and agricultural products came to be virtually eliminated. (3) By 1979, the agricultural product ratio exchange index reached 164.3, which is to say that for the same amount of agricultural goods, peasants could get 64.3 percent more industrial manufactures than during the first 7 years of the War of Resistance to Japan. Extrapolations made on the basis of import and export price statistics and comparative prices for Tianjin and Shanghai, in 1979, the same amount of agricultural products could be exchanged for more industrial manufactures than at any time in history. Not only was the amount greater than the minimum price differential between industrial and agricultural products during this century, which was in 1926 (fetching an average 21.84 percent more than during the first 7 years before the war), but it had reached the lowest price scissors level in the country's history of 1981 (fetching an average 64.08 percent more than during the first 7 years of the war), and had exceeded it a little. This was a major economic advantage that the peasant class had gained under the people's democratic dictatorship led by the working class. Naturally the two setbacks that China encountered in the course of economic construction during the past 32 years really damaged the peasants' interests. These circumstances were also reflected in prices. However, after having criticized "leftist" mistakes, with the implementation of policies and readjustment of prices, the peasants have already gained real advantages, which have been manifested in the following several ways.

A. Agricultural Products Gradually Changed from Losses to Considerable Profits

According to a national representative sampling, changes in costs and prices for 100 jin of major agricultural products such as grain (including paddy rice, wheat, millet, corn, gaoliang, and soybeans), oil-bearing crops (including rapeseed, sesame, and peanuts, cotton, and flue-cured tobacco are as shown in Table 2.

The Table 2 figures show the following:

1. Ever since 1965, and particularly during the 10 years of turmoil, for various political and economic reasons the cost of producing all agricultural products except flue-cured tobacco has generally risen. However, with the smashing of the "gang of four," and particularly following the Third Plenum of the 11th CPC Central Committee, as mistakes were corrected and policies gradually carried out, as blind direction was overcome in production and responsibility systems instituted, the enthusiasm of peasants was aroused, and agricultural costs declined markedly. For example, grain production costs in 1979 were 7.75 percent lower than in 1978 and 2.2 percent lower than in 1965. The cost of producing paddy dropped more, falling 10.41 percent between 1978 and 1979, and falling 11.9 percent between 1965 and 1979.

2. As a result of the price scissors inherited from history, agricultural product prices, and particularly grain prices, tended to be somewhat low from the outset. Though several price increases during the 1950's narrowed the price scissors, the two "leftist" errors caused agricultural product costs to rise. Prior to 1978, two fairly small price readjustments were

Table 2. Changes in Costs and Prices of Major Agricultural Products

Units: Yuan

Particulars			1965	1976	1977	1978	1979	1) 1979年比1965年增减	
								Amount	Percent
Type of grain	Average	Price	9.66	10.75	10.68	11.28	13.14	3.48	36
		Cost	9.55	10.89	10.43	10.58	9.76	0.21	2.2
		Tax	0.83	0.71	0.63	0.56	0.66	-0.17	-20.48
		2) 成本纯收益率%	-6.1	-2.78	-0.7	2.2	28.9	3.5	573.77
	incl. paddy	Price	9.60	10.57	10.91	10.89	12.54	2.94	30.63
		Cost	9.68	9.82	9.40	9.51	8.52	-1.16	-11.98
		Tax	0.76	0.56	0.53	0.48	0.50	-0.26	-34.21
		2) 成本纯收益率%	-7.7	1.42	11.1	10.1	42.0	49.7	645.45
	wheat	Price	11.90	13.50	13.61	13.80	16.37	4.47	37.56
		Cost	12.36	14.02	17.01	13.95	13.75	1.39	11.25
		Tax	0.95	0.82	0.86	0.66	0.77	-0.18	-18.95
		成本纯收益率%	-10.56	-4.21	-24.4	-5.19	14.1	24.56	232.58
	Average for oil-bearing crops	Price	25.59	29.41	31.30	31.23	39.17	13.58	53.07
		Cost	23.19	26.32	28.66	36.36	26.13	2.94	12.68
		Tax	1.50	1.63	1.55	1.42	1.42	0.08	5.13
		2) 成本纯收益率%	4.3	2.22	4.2	13.4	44.8	40.5	941.86
Cotton	Price		92.37	107.29	107.43	120.42	133.66	41.29	44.70
	Cost		62.44	108.10	103.95	100.99	95.54	33.10	53.01
	Tax		5.39	4.41	5.63	9.82	5.19	-0.20	-3.71
	2) 成本纯收益率%		43.5	-2.78	-1.17	12.83	35.2	-8.3	-19.08
Flue-cured tobacco	Price		72.53	68.82	58.42	55.62	56.94	-15.59	-21.49
	Cost		43.98	41.95	40.40	42.45	41.78	-2.2	-5.00
	Tax		2.10	1.20	1.03	1.10	1.01	-1.09	-51.90
	2) 成本纯收益率%		19.3	47.16	49.99	34.55	33.9	14.6	75.65

3) 说明:

(a) 成本纯收益率包括副产品在内。

(b) 成本中的工价系一律以0.8元计算。

(c) 价格是按平均收购牌价计算的, 不是标准品收购牌价, 亦不是实际平均价格。

Key:

1) Increase or decrease between 1965 and 1979

2) Cost net earnings rate %

3) Explanation

(a) Cost net earnings rate includes sideline products

(b) Labor costs as a part of costs are figured at a uniform 0.80 yuan

(c) Prices are figured in terms of average procurement list prices and not in terms of standard product procurement list prices nor in terms of actual average prices.

made. The one in 1966 raised the grain procurement price 17 percent. At the same time, the added price bonus (12 percent) was abolished, and the 1965 monopoly procurement quota "guaranteed without change for 3 years" was retained, with material bonuses being given for one-half of all amounts over the procurement quota, and a 30 to 50 percent premium price paid for the other half. In the 1971 price readjustment, the monopoly procurement quota was "guaranteed for 5 years," and a 30 percent premium price paid for all grain over the quota. Though these two price rises brought advantages to the peasants, costs rose as a result of blind directions. In some cases, profits from agricultural products were fairly low; and in some cases, prices paid for agricultural products were still unable to compensate costs. For example, during 1976 and 1977, losses resulted in grain production, and in 1978, profit amounted to only 2.2 percent. Losses occurred year after year in wheat production, and for 3 consecutive years in cotton production.

3. Once procurement prices for agricultural products increased tremendously as a result of the 1979 decision by the Third Plenum of the 11th CPC Central Committee, the situation changed markedly for the better. For example, the price of grain increased an average 20 percent for the country as a whole, while at the same time the premium price paid for procurement in excess of quota increased 50 percent. As a result of the correction of "leftist" errors and blind guidance, costs declined tremendously. The cost net earnings rate increased to 28.9 percent for that year. This included a rise for paddy from 10.1 percent in 1978 to 42 percent, and conversion of losses into profits on wheat production, the 5.19 percent loss of 1978 becoming a 14.1 percent profit in 1979. Fairly tremendous increases also occurred in earnings from oil-bearing crops and cotton with the cost net earnings rate being 44.8 and 35.2 percent respectively. Such a profit level would not be considered low even in the industrial sector. Given such a profit level, agricultural production units earnings from the sale of agricultural products were not only able to offset production expenses, but were also able to obtain needed funds for the expansion of reproduction.

B. The Gap Between Workers and Peasants in Standards of Living and Income Shortens, Then Widens, Then Shortens Again

Since liberation, we have striven to develop agricultural production while also readjusting the prices of agricultural products and solve fairly rapidly the price scissors between industrial and agricultural products inherited from history. Peasant income has risen. However, population growth was not checked for a long period of time, and this plus the destruction caused during the 10 years of turmoil caused a widening of the gap between worker and peasant standards of living that had been formerly narrowed. In 1965, the peasant standard of living was 42.19 percent that of workers, and in 1976, it was 36.76 percent. With implementation of rural economic policies in the wake of the Third Plenum of the 11th CPC Central Committee, agricultural production has developed very greatly. In 1979, the peasant average per capita consumption level (152 yuan) was 37.44 percent that of staff members and workers (406 yuan) versus 34.35 percent in 1977 and 34.46 percent in 1978.

Results of a national representative sampling showing comparative changes in worker and peasant earnings for 1957, 1964 and the fourth quarter of 1980 are provided in Table 3.

Table 3. Changes in Worker and Peasant Comparative Earnings

	1957	1964	Fourth quarter, 1980	4) 1980年第四季度 比1957年增减	
				Amount	Percent
1) 职工平均每人 月收入(元)	21.13	20.29	42.80	21.67	102.56
2) 社员平均每人 月收入(元)	6.08	8.52	15.94	9.86	162.17
3) 社员收入为职 工收入的(%)	28.77	41.99	37.24	8.47	29.44

5) 说明:

- (a) 职工收入资料选自《1981年中国经济年鉴》VI第25页。
- (b) 社员收入资料选自全国农民经济生活调查资料。
- (c) 1957年的资料是24个省, 7,378户, 84,279人的调查资料。
- (d) 1964年的资料是27个省, 12,095户, 60,355人的调查资料。
- (e) 1980年第四季度是159,145户的调查资料。

Key:

- 1) Average per capita income per month (yuan) for staff members and workers
- 2) Average per capita income per month (yuan) for commune members
- 3) Commune member income as a percentage of staff member and workers income (%)
- 4) Increase or decrease as of fourth quarter of 1980 versus 1957
- 5) Explanation
 - (a) Staff member and work income data taken from "1981 Chinese Economy Yearbook," VI, p 25
 - (b) Commune member income data taken from national peasant economic life survey data
 - (c) 1957 data is survey data for 84,279 people in 7,378 households in 24 provinces
 - (d) 1964 data is survey data for 60,355 people in 12,095 households in 27 provinces
 - (e) 1980 fourth quarter data is survey data from 159,145 households.

Table 3 shows fairly great increase in income for workers and peasants. For the fourth quarter of 1980, average per capita income per month for staff members and workers was 102.56 percent higher than it had been in 1957, and the increase for peasants was 162.17; thus the gap between worker and peasant income was reduced. In 1957, the gap between worker and peasant income was 71.23 percent, but during the fourth quarter of 1980, it narrowed to 62.76 percent. This gap is basically consistent with the aforementioned 1979 national statistical data (which showed average per capita peasant consumption to be 37.44 percent that of staff members and workers), i.e., peasant earnings and consumption levels were slightly more than 37 percent that of staff members and workers.

If comparison is made with annual average income for each worker, in 1957 peasants made 35 percent of what staff members and workers made, but by 1979 the amount had climbed to 59 percent.

C. The industrial manufactures peasants obtained in exchange for agricultural products increased, and they gained real benefits.

Simultaneous with the national stabilization of industrial product prices during the past 30 years, there have been several increases in agricultural product procurement prices and a gradual rise in the rate of exchange between agricultural products and industrial manufactures. It has been stated previously that using a price ratio of 100 between agricultural and industrial products for the period 1930-1936, the agricultural product price in 1979 was 164.3. This was figured in terms of state-owned enterprise list prices. If negotiated prices, premium prices for excess procurement and market prices were included, it would have been 179.78 percent. This means that in 1979, the same amount of agricultural products could be exchanged for 179.78 percent more industrial manufactures than in the period 1931-1936.

The foregoing discusses overall price parity between industrial and agricultural products. The evolution of the actual amount of industrial manufactures obtained in exchange for major agricultural products is treated below (See Table 4).

Table 4 shows a gap between exchanges of specific industrial and agricultural products during the War of Resistance to Japan and the period of the War of Liberation, which had been virtually eradicated by about 1957. From 1957 onward, exchanges were greater than the 7 year pre-War of Resistance average. This is basically synonymous with the trend of change in overall price ratios.

The foregoing explains the changes in exchanges between agricultural products and industrial manufactures consumed in rural villages. But what changes occurred in price parity exchanges between agricultural means of production and agricultural products?

Between 1961 and 1978, prices of farm machinery fell 10 times; the price of chemical fertilizers fell 6 times; the price of pesticides fell 9 times; and the price of diesel fuel and plastic mulch used in agriculture fell 3 times. Using 100 as an agricultural means of production price index for 1962, in 1978 the index was 76, meaning a 24 percent decline. At the same time, the agricultural products price index was 107.19, meaning a 7.19 percent increase. Thus, the direction of change in exchange price parities for both the agricultural means of production and agricultural products was in favor of the peasants. For example, in 1959, it took 232,558 jin of wheat in exchange for 1 Dongfanghong Model 75 tractor. By 1977, the amount had fallen to 106,932 jin. In 1958, 189,309 jin of wheat could be exchanged for 1 Fengshou Model 27 tractor. By 1977, the amount had dropped to 62,284 jin. In 1960, 45,038 jin of wheat could be exchanged for a Gongnong Model 7 hand tractor. By 1977, the amount had fallen to 14,749 jin. It took 3.2 jin of wheat in exchange for 1 jin of ammonium sulfate chemical

Table 4. Evolution of Amounts of Industrial Manufactures Obtained in Exchange for Major Agricultural Products

1) 农产品 (100斤)	2) 被换工业品	战前七年 平均	1950	1952	1957	1964	1975	1978
4) 小麦	5) 食盐 (斤)	43	47	70	62	84	94	97
	6) 白糖 (斤)	18	9	11	13	13	17	17
	7) 白布 (尺)	39	27	28	31	41	45	45
	8) 火柴 (包)	50	37	40	50	52	67	68
	9) 煤油 (斤)	21	13	15	19	25	38	38
10) 稻谷	5) 食盐 (斤)	38	13	43	62	74	78	82
	6) 白糖 (斤)	14	7	8	13	13	14	14
	7) 白布 (尺)	30	19	19	31	41	37	39
	8) 火柴 (包)	45	29	29	50	52	56	51
	9) 煤油 (斤)	20	8	9	19	25	31	32
11) 油菜籽	5) 食盐 (斤)	87	69	64	93	136	188	195
	6) 白糖 (斤)	24	11	13	21	25	35	35
	7) 白布 (尺)	47	28	28	53	77	93	92
	8) 火柴 (包)	77	47	49	89	103	139	139
	9) 煤油 (斤)	30	15	16	28	42	78	78
12) 皮棉	5) 食盐 (斤)	404	467	638	545	606	802	706
	6) 白糖 (斤)	149	101	117	112	100	131	145
	7) 白布 (尺)	350	286	277	283	315	351	388
	8) 火柴 (包)	522	468	436	496	427	525	575
	9) 煤油 (斤)	202	152	159	165	182	296	326
13) 肥猪	5) 食盐 (斤)	120	153	190	226	325	345	365
	6) 白糖 (斤)	60	35	34	48	55	63	65
	7) 白布 (尺)	129	97	89	117	163	166	168
	8) 火柴 (包)	184	149	125	199	220	248	253
	9) 煤油 (斤)	73	44	43	67	94	141	140

Key:

- 1) Agricultural products (100 jin)
- 2) Industrial manufactures exchanged
- 3) Average for 7 years prior to War of Resistance to Japan
- 4) Wheat
- 5) Salt (jin)
- 6) White sugar (jin)
- 7) White cotton cloth (chi)
- 8) Matches (pack)
- 9) Kerosene (jin)
- 10) Paddy rice
- 11) Rapeseed
- 12) Ginned cotton
- 13) Fattened hogs

fertilizer in 1950; by 1977 the amount had dropped to 1 jin. In 1957 3.7 jin of wheat could be exchanged for 1 jin of urea; by 1977 the amount had fallen to 1.6 jin of wheat. In 1952, it took 30 jin of paddy in exchange for 1 jin of 666 pesticide; by 1977, the amount had fallen to 2 jin of paddy. In 1960, it took 69.9 jin of paddy to get 1 jin of trichlorfon pesticide; by 1977 the amount had dropped to 10.7 jin. The rise in the rate of exchange between agricultural products and industrial manufactures meant using the same amount of agricultural products in exchange for a greater amount of industrial products used in daily life and the means of production, the peasants deriving real benefits.

The foregoing circumstances show the Third Plenum of the 11th CPC Central Committee to have been a turning point. Coordination between the CPC's agricultural price policies and other rural policies created new favorable conditions for development of agricultural production, for improvement in the life of the peasants, and for gradually narrowing the differences between workers and peasants. In the wake of the Third Plenum of the 11th CPC Central Committee, the state made maximum efforts to readjust prices of agricultural products. The country's agricultural product procurement and marketing price differences were never great. Several times during the past 30 years, rises in agricultural product procurement and sale prices for grain, oil and cotton gave rise to inversions requiring that public financial institutions provide subsidies to commercial supply and marketing links. For example, in the purchase and marketing of grain, the state had to provide a subsidy of .06 yuan per jin of grain purchased within prescribed base figures; in the monopoly procurement of excess grain outside of base figures, it had to pay a subsidy of .08 yuan per jin. For grain purchased at negotiated prices, the subsidy averaged .16 yuan per jin of grain sold. In 1979, national subsidization of agricultural products amounted to 8.3 billion yuan, and amounted to 16.8 billion yuan in 1980. State reduction or remission of payment of various rural taxes amounted to 2 billion yuan in 1979, and reached 2.5 billion yuan in 1980. It has been estimated that taxes and profits on state purchased agricultural products increased by approximately 20 billion-odd yuan following industrial processing, while earnings returning to the peasants by the state through price subsidies and remission of taxes also approached 20 billion yuan. Thus, in terms of capital accumulation, what the state derived from products processed from agricultural raw materials was returned to the peasants through price subsidies. During the First 5-year Plan period, approximately 45 percent of national fiscal income was income related to agriculture. This situation has now changed greatly. This is to say that the country has gradually made a transition from reliance on funds accumulated from agriculture to carry out industrial construction to primary reliance on accumulation of capital from industry to realize the modernization of both industry and agriculture. However, the country's current efficiency in industrial production is not high; consumption of raw and processed materials is great, and costs are high. Income per 100 yuan of sales in 1981 had fallen 23 percent from the alltime high, and profits per 100 yuan of capital had declined 34 percent from the alltime high. Thus, in 1981 terms, the capital accumulations of industries that process agricultural products do not completely offset agricultural product price subsidies and this is one of the reasons for the country's present financial hardships.

The fundamental way in which to solve this problem is genuine change in a longstanding series of old methods for developing the national economy under guidance of "leftist" ideology, and truly proceeding from the real situation existing in the country to take a path on which speed is more certain and economic results better.

The country's current price ratios between industrial and agricultural products are equitable in terms of current historical conditions. However, a prevalent point of view maintains that present price ratios between industrial and agricultural products remain inequitable. Proponents of this view maintain that former industrial and agricultural product price scissors concepts are out of date, and that it is necessary to examine recent trends in the values of industrial and agricultural products in order to realize the true essence of the price scissors. They hold that the "price parity scissors" [bijia jiandoocha 3024 0305 0477 0430 1567] has been narrowed since the founding of the nation, but that the "specific value scissors" [bizhi jiandaocha 3024 0237 0477 0430 1567] has widened instead. They believe that the tremendous 1949 increases in agricultural procurement prices only served to narrow further the price parity scissors, and that a look at value trends shows that as a result of an agricultural labor productivity rate that is slower than the industrial labor productivity rate, not only does a price "scissors" between industrial and agricultural products exist, but it is large in scope and absolute figures are also large. It has been estimated as being around 20 billion yuan as of now. They believe that in order to institute exchange at equal price, even though the country does not have adequate financial reserves, it must continue efforts to narrow the specific value scissors until it is eliminated. They also propose a steady increase in prices for agricultural products as industrial labor productivity rises in order to attain the goal of prices being in line with value. This is a major problem in agricultural product price policies, and these proposals will have to be dissected further to determine their correctness.

A. Those who maintain that current price ratios between industrial and agricultural products remain inequitable and that the so-called "specific value scissors" must be eliminated, mostly equate exchange at equal price [dengjia jiaohuan] with exchange at equal value [deng jiazhi xiang jiaohuan 4583 0305 0237 4161 0074 2255]. However, as was explained in Chapter 1, as a result of the interaction of different economic laws in different forms of society, exchange at equal price is manifested in different ways. In a mature capitalist society, exchange at equal value [deng jiazhi jiaohuan] of the kind found in a small commodity economy no longer exists, and in a socialist society, as a result of the role of the laws of value under command of socialist basic economic laws and the laws of planned proportional development of the national economy, exchange at equal price [dengjia jiaohuan] also exhibits a new form. This is equitable distribution of profits through central planning that takes all factors into account after making sure that costs have been met. In his, "On Seven Problems in the Cooperativization of Agriculture," Comrade Mao Zedong said the following in 1955: A substantial portion of the large amounts of funds required for completion of national industrialization and the transformation of agricultural techniques will have to be accumulated from agriculture. In addition

to direct agricultural taxes, this will entail development of the production by light industry of large quantities of the means of livelihood that the peasants need, exchanging these things with peasants for marketable grain and light industrial raw materials that will satisfy the material needs of both the peasantry and the country, and will also accumulate funds for the country."² In 1965, Mao said the following in "On the 10 Great Relationships": "Our policy toward the peasantry is not that of the USSR, but rather considers the interests both of the country and the peasants. Our agricultural taxes have always been fairly light. In exchanges between industrial and agricultural products, we have adopted a policy of narrowing the price scissors to exchange at equal price or nearly equal price. Our procurement of agricultural products is at normal prices and the peasants do not suffer loss by any means; moreover, procurement prices are also increased gradually."³ We may note the following contradiction here in that in addition to agricultural taxes, clearly a certain amount of accumulation funds are taken from the peasantry in the exchange between agricultural and industrial products, yet this is said to be exchange at equal price or nearly equal price with the peasants suffering no loss by any means. On first hearing, there seems to be a contradiction in these words, but actually there is no contradiction at all. The crux lies in our fair distribution of a portion of net earnings under the principle of "considering the interests both of the country and of the peasantry," and it is this that is socialist exchange at equal price. Under socialist conditions, the relationship between the state and the peasants is a relationship between two owners. It is also a relationship between the whole and parts of the whole in which the interests of both are fundamentally identical. When the state derives some accumulation funds from the peasants, it is for socialist industrialization and the technical transformation of agriculture. Both aspects are indispensable and mutually advancing, and this is the road that the peasants must take to extricate themselves finally from poverty and head toward riches. Thus, for the peasants to turn over to the country a portion of net earnings is a bounden duty, and it is also in the peasants' own long-range interests. This differs entirely from the exploitative nature of the scissors between industrial and agricultural prices of the old society. Certainly there has to be a limit to the amount that the peasants turn over to the country. If certain bounds are exceeded, not only will the peasants be unable to carry on expansion of reproduction, but they will also be unable to recover their capital. That could not be termed concurrent concern for the interests of the country and the peasantry nor exchange at equal price.

As a result of readjustment of agricultural product procurement prices during the late 1950's, the country virtually abolished the price scissors between industrial and agricultural products that used price ratios for the 1930-1936 period as base figures. During the subsequent more than 20 years, the ratio of exchange between industrial and agricultural products consistently developed in a direction that helped the peasants to acquire more industrial manufactures. Unfortunately, two "leftist" policy errors were made, and these showed up in agriculture in the blind guidance of production and in a forced

² "Selected Works of Mao Zedong," Vol 5, pp 182-183.

³ Ibid, p 274.

transition of the production relationship. These "leftist" errors truly dealt a severe setback to agricultural production, caused agricultural production costs to rise, resulted in a rise in production with no concomitant rise in earnings, and a decline in the peasants' standard of living. "Leftist" errors also impacted on industry, likewise causing a decline in labor productivity rates and a rise in costs. However, since workers received fixed wages, and since employment increased, the impact of "leftist" errors on the standard of living of staff members and workers was less than on peasants. This was a major reason for the nascent increase in the gap between worker and peasant income and standards of living during the 10 years of turmoil. Fundamentally, this problem could not be solved by readjustment of prices for agricultural products. Consequently, the Third Plenum made multifaceted decisions for tackling the problem. They employed policy readjustment and responsibility systems to reverse the forced transition; they used self-determination in production and scientific farming as a counter to blind guidance. Simultaneously, they used a rise in the price of agricultural products as a means whereby the peasants might quickly derive real material benefits.

Some people used the faster rise of labor productivity rates in industry than in agriculture to explain the necessity for the country's 1979 readjustment of agricultural product prices, thereby reaching the conclusion that prices for agricultural products must be steadily readjusted as industrial labor productivity rates rise, as though not to do so would mean no exchange at equal price. This was a one-sided understanding of exchange at equal price between industrial and agricultural products. As a result of "leftist" errors, the labor productivity rates for both industry and agriculture declined during the 1970's, so it is hard to say just how much faster the industrial labor productivity rate grew in comparison with agriculture. However, for the reasons mentioned above as well as because of the rise in worker standards of living resulting from the unfreezing of wages right after smashing the "gang of four," it became imperative to proceed from the need to consolidate the alliance between workers and peasants and raise procurement prices for agricultural products in order to raise the peasants' standard of living.

For a very long time to come, the rate of increase in the labor productivity rate in industry will be faster than in agriculture. Given these circumstances, can exchange at equal price be achieved only by proportional steady increases in agricultural product procurement prices? As far as enterprises under a system of state ownership are concerned, the rise in industrial labor productivity rates does not show up directly in a rise in staff member and worker income, but rather in an increase in national income. This differs from the collectively owned system where once national income has increased, just how net income should be distributed must be planned in an overall way after taking a look at the overall situation. In short, this portion of net income is used to raise the whole people's standard of living and serves the goal of final eradication of differences between workers and peasants. However, how to make distributions in a way that most helps attainment of this goal is restricted by the laws governing planned proportional development of the national economy. Should all this net income be used to increase agricultural product procurement prices in order to hasten the narrowing of

the gap between the living standards of workers and peasants? Or should it be used to raise the wages of workers simultaneously with raising the standard of living of peasants? Should it be used as a means of lowering prices of the means of agricultural production in order to promote agricultural production? Or should a substantial portion of it be used to expand production and a smaller portion be used to raise the people's standard of living? The hour must be judged and the situation sized up to make the most appropriate choice on the basis of political and economic conditions during a specific historical period. There positively can be no use of increased net income that has not come from a rise in industrial labor productivity rates to raise agricultural product procurement prices. To do so would amount to destroying the principle of exchange at equal price with the result that the peasants would suffer. The source that leads to this conclusion is found in simplistically equating exchange at equal prices during the socialist period with exchange at equal value. This is a negation of the necessity for the country's conscious application of basic socialist economic laws and laws of planned development to differential distribution of net income.

B. Those who argue that the so-called specific value scissors must be eliminated do not understand that under the system of socialism, price channels are only a form of distributing net income, and that where the demands of expanding agricultural production are concerned, relying on price levers alone is inadequate and has its limitations.

In a situation of fairly rapid increase in industrial labor productivity rates and corresponding increase in state concentrated net income, a certain portion of net income will be available for use in developing agricultural production and improving the peasants' standard of living. Should all of this net income be transferred to the peasants through price channels? No, this should not be done. This is because providing peasants with advantages through price levers will not necessarily benefit the peasants generally, nor will it necessarily solve all the problems that must be solved in developing agricultural production. For example, though raising agricultural product procurement prices can give production teams the financial resources to undertake expansion of reproduction, what they are able to do will be limited to improved production conditions in just one production team and one commune. If farmland capital construction, development of water conservancy, conservation of soil and water, or soil improvement are required on a larger scale, this is something they will not be able to handle. As another example, if the state wants to emphasize development of a certain region's agriculture or local specialties and build a base there, this is also not a problem that prices can solve. In addition, looking farther afield, sooner or later Chinese agriculture will have to take the road of across-the-board mechanization, and purchase of machines will require expenditure of a great deal of money. American and Soviet experience shows that the investment required for full mechanization of agriculture positively cannot be obtained through reliance on accumulations from agriculture itself. Even American farm capitalists have to rely on large loans. Therefore, the peasants to become rich, sole reliance on prices alone is not enough; it will also be necessary to employ fiscal and credit levers to get the desired results.

Since liberation of the whole country, the state has used price, fiscal and credit levers to assist agriculture. For example, funds used for state financial support to agriculture during the First 5-year Plan amounted to 49.34 percent of national revenues from the agricultural sector. During the Second 5-year Plan, they amounted to 55.98 percent, and during the Fourth 5-year Plan to 164 percent. Between 1952 and 1979, funds paid from the national treasury for agriculture totaled 173.92 billion yuan or 11.1 percent of total national payments. This included 70.23 billion yuan in disbursements for capital construction in farming, forestry, water conservancy, and meteorology. Operating expenses in farming, forestry, water conservancy, and meteorology reached 57.63 billion yuan, and 7.54 billion yuan in circulating funds have been disbursed for agricultural enterprises. Credit assistance has been provided in addition to financial assistance. Bank credit funds to assist agriculture totaled 17 billion yuan between 1952 and 1979, and as of the end of 1980, the loan balance outstanding to rural communes and brigades was 15.86 billion yuan. During the past 30 years, the country's irrigated area has increased from the 300 million mu of 1952 to the present more than 670 million mu, and ordinary flood disasters on the Yangtze, Yellow, Huai, Hai, Pearl, Liao and Songhua rivers have been brought under preliminary control. Rural electricity use has increased 6.5 fold over the period immediately following liberation, development of rural commune and brigade industry and economic diversification in recent years would not have been possible without government loans.

State financial and credit assistance to agriculture has scored very great accomplishments, but there has also been considerable waste and economic results have not been all they should have been. This has resulted primarily from the disruption that the two mistakes occasioned when some things were attempted that contravened natural laws and were not within the country's power. For example, quite a bit of money was wasted on the building of water conservancy, on agricultural mechanization and on support to poor production brigades and production teams. But this was not because government financial and credit assistance was not a good idea, but because the money was not spent where it could do the most good. Henceforth, the state must use not only prices but must also use public financial levers more to assist key development areas such as poverty-stricken areas in which commodity rates are very low as well as commodity grain bases. This is the only way in which to make up for the inadequacy of price levers to promote a general flourishing and development of the whole country's rural villages. Thus, that portion of net income that is to be distributed to agriculture in a planned way must be channeled into agriculture proportionally, using the several levers of prices, public funds and loans. But those who advocate use of prices to eradicate so-called specific value scissors think only in terms of using the single form of prices alone.

C. Those who propose eradication of so-called "specific value scissors" also lack an understanding of the mutually restrictive relationship existing between agricultural modernization and industrial modernization. Without modernized industry to back it up, the modernization of agriculture cannot be realized. The most agriculturally modernized nation in the world, the United States, brought about full mechanization of its agriculture from a foundation

of highly modernized industry. Labor shortage was the engine that drove the modernization of American agriculture; nevertheless, it was only after America's steel industry had developed that it became possible to improve farm implements and create new farm machines. Only after steam engines had been improved was it possible to use combines and realize semimechanization in America. Full mechanization and the modernization of agriculture were realized only after large-scale development of the steel, petroleum, machinery, chemical and electric power industries. The mechanization of China's agriculture has been tortuous, not only because of the large labor force, which means no urgent need for machines, but also because of the backwardness of industries that support agriculture. This is to say that some of the machines and chemical fertilizers that we have provided the peasants have frequently been high priced and of inferior quality, or even that some products that were supposed to help agriculture "cheated agriculture," and made the peasants recoil. Rice transplanters were the earliest farm machines designed in China. However, while Japanese rice transplanters are superb, China's rice transplanters are still not up to snuff, and the problem is the raw and processed materials used to make them. This, in itself, is a problem of the level of industrial development.

Development of a powerful, modernized industry to support agriculture requires concentration of a very large amount of net earnings for investment in industry. A look at the situation in China today shows that we are very rarely able to invest in industry the net earnings that agriculture has created (even industrial earnings from the processing of agricultural raw materials are used as price subsidies), and accumulations from within industry must be depended upon as the main source of funds. If the net income created after raising the industrial productivity rate were to be diverted to the peasants, there would be no use in even talking about the modernization of industry, but without industrial modernization, even were the peasants to get hold of a large amount of banknotes there would still be no way to modernize agriculture. This reasoning is very clear.

We believe that the desire of those who propose eradication of the so-called "specific value scissors" to make the peasants richer more rapidly is good. However, eradication of differences between workers and peasants to make the peasants truly rich is a long-range goal requiring a long period of struggle. The fundamental way in which to make the peasants rich is to raise the labor productivity rate in agriculture, but raising the agricultural labor productivity rate depends on the modernization of agriculture. Modernization of agriculture in a backward agricultural nation with such a huge population as China's is unprecedented. We cannot simply copy mechanically the experience of a given country; rather, we must proceed from realities as they exist in China and do some strategic planning for the modernization of agriculture. We must place the agriculture price policies of readjustment of price ratios for industrial and agricultural products on the overall strategic chessboard of carrying out the four modernizations. For China to raise agricultural productivity rates, it will be necessary, first of all, to solve the problem of a work force of 300 million concentrated on 1.6 billion mu of cultivated land. The world average amount of cultivated land served by the agricultural work force is 25.9 mu per capita (in 1948), but in China the average is only 4.88 mu, one of the lowest in the world. The experience of many countries is for

the agricultural labor force to shift to urban industries to bring about industrialization, which subsequently promotes the mechanization of agriculture. But we cannot apply this method. Our opening lies in adherence to the socialist road and responsibility systems in agriculture simultaneously with rational use of existing cultivated land in making rational and full use over a period of time of the large tracts of mountains and hills, the vast grasslands, the large and small rivers as well as the lakes, pools and ponds that dot the landscape, as well as ocean beaches and the oceans. We must establish a concept of comprehensive development, mobilize the 300 million-strong rural work force, widen avenues of production, and develop economic diversification and household sideline occupations to march into production in depth and in breadth. We must use in a rational way the net earnings that the country has accumulated in accordance with such an overall strategic plan. Departure from this overall strategy for one-sided emphasis on exchange at equal price and eradication of the "specific value scissors," and dissipation of the country's limited accumulations through price channels in distributions to the peasants may seem reasonable, but actually is not in keeping with the peasants' long-term interests. This is particularly true right now following the tremendous increases in agricultural product prices in 1979. A look at actual strength in financial and material resources shows further price rises to be impossible for a long time. An increase in peasant income and a rise in the peasant's standard of living will require abiding by the program put forward by the CPC Central Committee of relying first on policies and second on science. This means the use of policies to stir peasant enthusiasm for widening production avenues, and the use of science to make it possible for peasants to increase economic benefits. Emphasizing that agricultural procurement prices continue to be too low can only harm and not help at the present time.

We are not in favor of talking about exchange at equal price [dengjia jiaohuan] in the same breath, and we do not favor proposals for narrowing and eradicating the specific value scissors. Instead, we advocate rational planning of agricultural product prices that takes all factors into account. In capitalist societies, because of the unequal development of industry and agriculture, the speed of growth of labor productivity has been higher in industry than in agriculture for several hundred years. In the United States, it was only around the time of World War II that a new situation developed in which the speed of the agricultural productivity growth rate outdistanced that of industry. This process must be shortened in socialist societies, and it can be shortened. Study of how the agricultural productivity rate can be accelerated under the guiding role of industrial modernization in a socialist economy, industry and agriculture thereby becoming mutually supportive, is without doubt of major significance for hastening realization of the "four modernizations." However, we believe that some people's attempts to use comparisons of industrial and agricultural labor productivity rate growth to derive equivalent exchange differentials figured in terms of amount of value are unscientific. If one says that the industrial labor productivity rate increased 2.13-fold between 1952 and 1979 while the agricultural labor productivity rate increased 1.23-fold, the growth index for the agricultural labor productivity rate would have been 57.76 percent that of the industrial labor productivity rate growth index. The agricultural labor productivity rate would have grown 42.3 percent slower than the industrial labor

productivity rate. Using this as a basis, it is maintained that when figured in terms of amount of value, the exchange differential between industrial and agricultural products actually increased 42.3 percent. This method of calculation overlooks two factors, namely: the overly fast increase in rural population and loss of control; and that diminution of commodity value and rise in labor productivity rate will not be in the same proportion. Marx has pointed out: "The value of goods is determined by the total worktime put into the goods, i.e., both past worktime and live labor time. A rise in the labor productivity rate occurs by reducing the portion of live labor and increasing the portion of past labor; however, the result is a reduction in the total amount of labor contained in the goods. Thus, the reduction in live labor must be greater than the increase in past labor."⁴ Let us try the following example. Suppose that it took 4 hours of live labor and 4 hours of materialized labor to produce a pair of shoes for a total labor expenditure of 8 hours, a single person being able to produce two pairs of shoes each day. Now, however, as a result of the use of new kinds of equipment, production of the same pair of shoes requires only 1 hour of live labor; however, because of an increase in equipment depreciation, the amount of materialized labor increases from 4 hours to 5 hours. Total labor consumption changing to 6 hours per pair of shoes, and a single person is able to produce eight pair of shoes per day. One can see from this example that when the amount of live labor needed to produce one pair of shoes changes from 4 hours to 1 hour, the labor productivity rate rises threefold. The live labor in one pair of shoes changes from 4 hours to 1 hour, a 75 percent decrease. However, the total labor consumption required to make a pair of shoes falls from 8 hours to only 6 hours, a 25 percent decrease. Obviously, it is not correct to equate the increase in the labor productivity rate and the amount of labor saved directly with an amount of decline in value.

In order to explain exchange at unequal price [budengjia jiaohuan] between industrial and agricultural products, some people resort to the following method of calculating the value of industrial and agricultural products: They can convert industrial and agricultural labor productivity into unified directly comparable labor productivity, and then use the total amount of comparable labor productivity engaged in creating value throughout the country to compute individual percentages for the two sectors of industry and agriculture, each of which they multiply by gross national income, and then add to each the value of material consumed in products. In this way, they derive the gross social value of industrial and agricultural products separately. They then compare this with actual prices of industrial and agricultural products to obtain the extent to which prices of agricultural and industrial products deviate from their value. However, two calculation methods are used to determine conversion standards for worker labor and peasant labor. Some people suggest that the work of one industrial staff member or worker is roughly equivalent to the work of three agricultural workers. Yet another group of people say this will not do, and that peasants will get the short end of the stick from such calculations. They propose that the work of one industrial staff member or worker be roughly equal to the work of two agricultural workers. Using the first method of calculation, prices of

⁴ "Collected Works of Marx and Engels," Vol 25, p 290.

agricultural products in 1977 in China were 69 billion yuan lower than their value. Using the second method of calculation, 1977 agricultural product prices were 93.4 billion yuan lower than their value.

How should one regard these theories and methods of calculation in terms of national price policies? If one says these theories are correct and these methods are scientific, that is tantamount to saying that our prevailing national income distribution structure is thoroughly wrong and must be fundamentally reformed. For example, using the second method of calculation that showed produce prices to be 93.4 billion yuan lower than their value, even after subtracting the agricultural products that the peasants consume themselves, the state debt owed to the peasants is still 45.3 billion yuan. Where can such an amount of money be found to repay the debt? There can be only two ways. One is to draw down public finances, and the other is to draw down wages. What does drawing down public finances mean? In 1977, China's revenues amounted to 87.4 billion yuan, so a debt of 45.3 billion yuan would amount to 52 percent of public revenues. A cut here would be severing half of public consumption and accumulations. Well, do we or do we not want to build up the economy? Do we or do we not want to strengthen national defense? And do we or do we not want to develop science, education, culture, and health? If one says this road cannot be taken, then the alternative is to draw down wages. And what does drawing down wages mean? In 1977, wages in China totaled 50 billion yuan, and a 45.3 billion yuan debt would be equal to 90 percent of the total wage figure. Cutting here would mean firing 90 percent of workers or lowering their wages by 90 percent. Not only would the working class not approve of such a price policy, but even the peasant class would not agree with it because the peasant masses show good sense, and they understand that present interests and long-term interests are synonymous.

In 1977, China's national budget amounted to 33 percent of national income; during the same year, the United States federal budget and state budgets amounted to 39 percent of national income, and the USSR state financial budget amounted to 61 percent of national income. China's financial revenues are lower than those of the United States and the USSR. However, inasmuch as China's production level is low and it has a large population, individual consumption as a percentage of national revenues should be relatively larger, and financial revenues as a percentage of national income should be relatively smaller. Consequently, the rise in prices of agricultural products and wages of staff members and workers in the wake of the Third Plenum of the 11th CPC Central Committee readjusted the ratio of financial income to national income at around 28 percent. This already reaches the lowest limit of financial income, and were it to be lowered more, not only would it be impossible to expand reproduction, but even difficult to maintain the simple reproduction of industrial and mining enterprises. National defense and political power would also be weakened, and culture, education, science and health endeavors could not only not develop but would have to be further curtailed. This would not be in keeping with the basic welfare of the people of the whole country including the farflung peasant class. In China today, income and standards of living of workers are higher than those of peasants. Existence of a gap between worker and peasant standards of living is a fact. However,

the solution to this problem, which has been inherited from history, positively cannot be found in drawing down wages in order to raise peasant income. On the contrary, the income of workers and peasants alike must continue to rise, but the only method that can be used to do this is increased production rather than dependence on prices for redistribution of income. The main problem with comrades who maintained that exchange at equal price between industrial and agriculture products should be exchange at equal value, and who thus decided in the wake of the tremendous rise in procurement prices for agricultural products of 1979 that the price ratio between industrial and agricultural products was still unfair, and who advocated continued major increases in procurement prices for agricultural products is that they proceeded solely from the standpoint of the agricultural sector; they lacked an overall balanced conception of the national economy. As a result, they inevitably used the abstract ideal of exchange at equal value to negate the sensibleness of China's distribution of national income at the present stage.

What does sensibleness mean? We say that only a policy that is centrally planned and takes into account the interests of workers and peasants, the country and collectives, the present and the long-range, and the whole and its parts is sensible. Moreover, long-range interests and the interests of the whole must be given first place. Only in this way are the interests of parts of the whole fundamentally guaranteed. Consequently, we believe that the content of China's price policies and the implication of exchange at equal price can only be equitable distribution of profits through central planning that takes all factors into account once compensation for costs has been assured. This is what is meant by socialist exchange at equal price. It is a concrete embodiment of the laws of value within the restrictions imposed by socialist basic economic laws and the laws of planned, proportional development of the national economy. Comrades who maintain that exchange at equal price is the same thing as exchange at equal value say this is not rational; yet, according to their way of doing things there is no way of unifying present and long-term benefits or benefits of the whole and its parts. Once long-range benefits and basic benefits have been lost, what rationality is there?

Some people may pose the following question: Abstractly speaking, the reasoning may be correct for centralized planning that takes all factors into account to arrive at a reasonable price ratio between industrial and agricultural products. However, concretely speaking, what is the quantitative limit? How can one determine whether agricultural product prices are fair or unfair?

We believe that there are three indicators of whether or not agricultural product prices are fair or unfair as follows:

A. Whether or not the interests of the country, the collective and peasants are served concurrently. This must be achieved. First, the price of agricultural products must be able to compensate the materials consumed in agricultural production and, in normal harvest years, peasant incomes should rise year by year as a result of their efforts in production, the collective thereby gaining a certain accumulation sufficient for expansion of reproduction. At the same time, the state should also gain a certain accumulation from exchanges of industrial for agricultural products.

B. Whether or not prices shorten rather than enlarge the gap between worker and peasant standards of living. Suppose worker income rises as wages rise and employment increases, but agricultural production stagnates, peasant income cannot rise when prices are at a set level. Then, the gap between worker and peasant income and standards of living widens. Just such a situation existed in China during the 10 years of turmoil in China and in 1977 and 1978 following the smashing of the "gang of four." The 1979 national rise in prices for agricultural products was precisely for the purpose of changing this situation. But is it true that each time wages rise there must be a corresponding rise in the price of agricultural products? There is no inevitable relationship between these two. This is because under ordinary circumstances agriculture is able to increase income as production increases, and when correct agricultural policies are pursued with the peasants being organized to forge ahead in depth and in breadth, potential for increasing income is very great. The wages of staff members and workers, on the other hand, cannot spontaneously and steadily increase except for normal raises in grade or rise in employment. This is the general trend of development. As to how to reduce gradually the gap between worker and peasant income and standards of living in real life is an important proportional relationship matter that must be considered and concretely planned out in framing long-range plans. The first action required is how to help peasants develop production and broaden avenues of production while at the same time not eliminating the coordinated role of financial and tax collection levers as well as price levers.

C. Whether or not agricultural price rises help raise the exchange rate for industrial products. When peasants are able to exchange agricultural products for more industrial manufactures, this is a real benefit for the peasants, and it is the thing about which peasants are most concerned. Consequently, whenever the exchange rate between industrial and agricultural products changes in favor of the peasants, peasant enthusiasm for production rises, and the commodity rates for agricultural products rises correspondingly. The exchange rate between industrial and agricultural products is determined by changes in agricultural product procurement prices as well as prices of the means of industrial and agricultural production and the means of consumption. In raising the rate of exchange between agricultural products and industrial products, the decision as to whether to raise the procurement price for agricultural products or lower the sale price of industrial manufactures is made in the basis of specific circumstances at the time.

The aftermath of the 1979 national rise in agricultural product prices substantially met requirements when measured against the foregoing three criteria. The one shortcoming was that the accumulations that the state derived from agriculture reached their lowest limits. However, this had to be done for the overall good; consequently, we say that current price ratios between industrial and agricultural goods are equitable.

3. The Formation of Agricultural Product Prices

Correct arrangement of price ratios for industrial and agricultural products is done through exchange and proper handling of distribution relationships between industry and agriculture, workers and peasants, the state and collectives. This is a major question in promoting the balanced development of both

industry and agriculture, and consolidating the alliance between industry and agriculture. This question is of primary importance, and must be examined in terms of the macroscopic economy and an answer provided. However, study of this single aspect has still not solved the whole problem of agricultural product prices. Prices of agricultural products are formed in a different way from prices of industrial manufactures, and problems of price ratios among agricultural products and cost reduction are extremely important. They must be sorted out and examined. Moreover, these problems and price parity problems between industry and agriculture on the macroscopic level have a mutually restrictive relationship.

There are special problems in the formation of prices for agricultural products, the first of which is whether the procurement price for agricultural products should use costs of producing poor-grade product, intermediate-grade, or superior-grade products as a basis. The second problem is how to figure compensation for labor correctly. The third is the problem of the profit rate to be used in setting prices for agricultural products.

A. The problem of whether the cost basis in setting prices for agricultural products should be the cost of producing poor-, intermediate-, or superior-quality products.

In Chapter 1, we talked about price formation being based primarily on average social costs, but agricultural production has certain special characteristics. In agricultural production, the object of labor is the soil, and soil fertility differs. Investment of an equal amount of labor on an area in which soil fertility differs will produce unequal amounts of agricultural products; thus, the amount of labor consumed for agricultural product yields per unit of area from poor soil will be greater than the amount of labor consumed for agricultural product yields per unit of area from medium-quality and superior-quality soils. Were prices for agricultural products determined on the basis of labor consumed to produce medium-grade products, as is the case in industry, producers who farm poor soil would be unable to obtain any net income, or would be unable to make up production costs and maintain simple reproduction to say nothing of expanding reproduction. However, in order to satisfy society's steadily rising needs for agricultural products, and since the superior-quality soil area is limited, production must be conducted on different grades of soil; thus it is objectively necessary to set prices on the bases of labor consumption for products produced on poor-grade soil. In this way, owners who produce from different kinds of soil will derive different incomes, thereby giving rise to differential land income.

Conditions contributing to differential land income are: 1) natural conditions, difference in soil fertility and limited amounts of land; and 2) social conditions and monopoly on the use of the land's natural strength.

Differential land income exists in all forms of society, but the process by which it comes into existence, forms of distribution, and its trend of development differ with land ownership and the nature of operations. In a small-scale agricultural economy of production for self-sufficiency, this differential land income is manifested simply in those households farming

superior soil having to work somewhat less, producing somewhat higher yields, and living a little better life. When differential land income changes into differential land rent, the land is under a system of private ownership. In feudal landlord economies, tenants have to pay landlords higher land rent for superior-quality land than for poor land. As commodity production increases, the method of payment develops from rent paid in the form of labor service to payment of rent in kind, to payment of rent in currency. In capitalist societies, land is owned by landlords, and agricultural capitalists rent land from the landlords and hire workers to farm it. They then pay land rent in currency to the landlord out of surpluses above and beyond average profits that they have derived from exploitation.

In a socialist society, public ownership of land takes the place of private land ownership, thereby abolishing the socioeconomic system in which income is converted into land rent. Nevertheless, the differential land income from which differential land rent stems continues to exist. This is because, first of all, differences still exist in soil fertility and location of the land, and because the amount of superior-quality land is still limited. Second, most of the land in rural people's communes is under collective ownership of production teams. This gives rise to self-determination, or one might say monopoly rights, in how the land is used. In these circumstances, in order to satisfy society's needs for agricultural products, in addition to farming superior-quality land, rural people's communes have no choice but to farm poor-quality land as well. This means that production units that farm superior-quality and intermediate-quality land will derive more income per unit of area after selling their own agricultural products than will production units that farm poor-quality land. This is to say that the natural conditions and the socioeconomic conditions for differential land income from production continue to exist in socialist societies.

Socialist differential land income and capitalist differential land rent are in two different economic categories. Capitalist differential land rent is the difference between individual production prices for agricultural products and social production prices; it is the portion of surplus value created by agricultural workers in excess of average profit, and it is turned over to the owner of the land in the form of land rent. It reflects agricultural capitalist and landlord individual reliance on authority over the means of production, and their common relationship in dividing up the surplus value that workers have created. Socialist differential land income is the difference between the individual value of agricultural products and their social value. It has been jointly created by collective agricultural workers free from exploitation, and it reverts to collective ownership of the workers. It reflects the oneness of the fundamental interests and differences in some interests of the collective and commune members (or farm members) in a socialist society. In socialist societies differential income may occur in all production sectors in which land is the object of labor such as mines, farms and forest areas; however, only differential income in a collective economy can become collective economy income. In a system of state ownership, differential income belongs to the state, and the state can use collection of financial revenues to concentrate differential income in the national treasury. This is the difference between the two forms of ownership.

Under socialist conditions, differential land income may be divided into two types on the basis of how it was formed. One is the different kinds of income produced as a result of differences in soil fertility and location, and equal amounts of labor (including live labor and materialized labor, the same applying subsequently), which is termed the first form of differential land income (differential land income I). Included here as the first kind of situation is the form resulting from differences in soil fertility. The situation resulting from differences in location of the land is the second kind. Second, the different income resulting from differences in the intensiveness of agriculture as well as differences in the level of farming and economic results when equal amounts of labor are applied, we have termed the second form of differential land income (differential land income II).

Differential land income is manifested, first of all, in kind. It is further manifested in the form of currency in commodity economy conditions. So long as prices are uniform, it is manifested in differential land income in the form of currency.

Socialist differential land income is closely related to the setting of prices for agricultural products in terms of whether they were produced on superior-, intermediate-, or poor-quality soil. If prices are set in terms of superior-quality soil, no problems of differential income exist. Only when prices are set on the basis of poor-quality or intermediate-quality soil is it possible for production units on superior-quality soil and intermediate quality soil to derive differential income.

In China today, procurement prices for agricultural products are set basically in terms of production costs on intermediate-quality soil. The actual method employed is to figure an average based on figures from more than 10,000 agricultural cost points throughout the country. Strictly speaking, this differs from setting prices in terms of production costs on intermediate-quality land. This is because production teams are the units used at cost points, and not all the land in a production team is necessarily of intermediate quality. Furthermore, production team costs are not determined entirely by natural conditions, but also by subjective factors such as quality of administration and management. Thus, it is possible to say only that prices are set in terms of production costs in production teams having intermediate conditions, and that they are approximate values for setting prices based on intermediate-quality land production costs. This is currently achievable on the basis of data from cost points.

However, some people believe that this method of setting prices is theoretically untenable because Marx said in "Das Kapital" that capitalist prices for agricultural products are set according to production costs on poor-quality land plus an average profit rate. Since we must still farm poor-quality land, we have to guarantee that the labor peasants expend on this poor-quality land is fully compensated. Proceeding from this point of view, they propose that the plan price for agricultural products should be set on the basis of production costs on poor-quality land plus a fixed amount of profit. A proposal similar to this view is use of available data at cost sites to set prices on the basis of production team costs when average

production conditions are poorest or less than intermediate, plus a fixed profit. This way of doing things differs slightly from setting prices purely in terms of production costs on poor-quality land. This is because a collective production unit's land sometimes belongs to a different production unit and is a mixture of good and bad. Use of a production team in which average production conditions are poorest or a production team in which production conditions are lower than intermediate to set prices on the basis of costs is a process of "averaging land labor." They believe the advantage in this method is that it is both able to arouse the enthusiasm of agricultural production units to farm superior-quality and intermediate-quality land, and to arouse the enthusiasm of agricultural production units to farm poor-quality land. It helps produce more and better agricultural products to satisfy the needs of national construction and the people's standard of living.

We believe that the setting of prices on the basis of costs in production units that have poor soil or poor production conditions is at variance with the country's realities and would lead to a great reshuffling of agricultural product price ratios as well as parity price ratios among agricultural products, which would be disadvantageous to the country and the peasants. Because of China's vast land area, production costs vary in the extreme between places having poor land and fine land, and between production units in which average production conditions are good and production units in which average production conditions are the worst. Without talking about the whole country, just take as an example 15 survey sites in Shanghai where the cost of producing early xian paddy in 1978 in the worst production team, namely Shaozhai No 5 Production Team in Shutang Commune, Jiading County was 12.53 yuan per dan, while in the best production team, No 2 Production Team of Dongfeng No 1 Production Brigade in Zhuangxing Commune, Fengxian County was 4.9 yuan per dan. Suppose production costs in the worst production team were used as a basis for setting prices, then the worst production team could receive 7.63 yuan of differential land tax (not including taxes) per dan of xian paddy, or 1.56 times costs. Were this applied to the whole country, this difference would doubtlessly be larger. This is to say that setting of prices on the basis of poor-quality land costs would inevitably increase agricultural procurement prices greatly and change the entire price structure. Should one believe that only such action would be considered as meeting the theoretical requirements of Marxism? This requires a historical analysis of the formation of a country's prices. Marx said that formation of prices on the basis of poor-quality land production costs plus average profit was rooted in a highly developed capitalist society. This is doubtlessly so in the case of capitalist societies because the monopoly operations of land capitalism average out agricultural products, and the regulatory function of production prices does not hinge on medium-quality land production conditions but rather on poor-quality land production conditions. This is because products from superior-quality land and medium-quality land are unable to satisfy the needs of society. Were tenant farmer capitalists who invest in poor-quality land not to obtain an average profit, they would transfer their capital to another sector.

China's situation is different since agricultural production is a long way from having entered the historical stage of capitalist monopoly operations and since agricultural production is very largely for self-sufficiency, with an extremely low commodity rate. Exchanges of industrial and agricultural products had been semicolonial in character and, as a result, during the several decades just before liberation, the price scissors between industry and agriculture, which was so unfavorable to exchange of industrial and agricultural products, steadily widened. Only after the whole country had been liberated was it possible to turn this situation around. However, in view of China's national strength, we are only able to raise agricultural product procurement prices gradually rather than reach the highest level in a single bound. We can only proceed from the overall balance in the national economy to do everything possible to work out planned prices for agricultural products; we cannot proceed from price theories suited to agricultural products under capitalist conditions; and we cannot work out planned prices for agricultural products that are not in keeping with China's circumstances and that lead to destruction of the overall balance of the national economy.

Furthermore, in stating that capitalist agricultural product prices will be prices based on production costs on poor-quality land, Marx clearly pointed out that this would create false value in society. Marx said: "This is because of the determinant of market value that comes about through competition on the basis of capitalist production methods. This determinant produces a false social value. These circumstances are created by the laws of market value. The products of the soil are also controlled by this law."⁵ In capitalist society, social value, too, is excess profit. It is surplus value that is redistributed among industrial capitalists, agricultural capitalists, and landowners. Capitalists and landowners wage a fierce struggle to get hold of this surplus value. Should such a false social value exist in a socialist society? We believe that false social value enables some production units that have superior quality land to make excess profits. This income does not derive from labor; thus the disparity between poverty and riches created in production units is bad for internal peasant unity and for mutually cooperative relations between industry and agriculture.

It is true that not to set prices on the basis of poor-quality land causes hardships for agricultural production units that farm poor-quality land, making it impossible for them to fully compensate the labor they have expended in production. But two circumstances must be taken into consideration. First, in most cases, the production level on poor-quality land, which makes up approximately 40 percent of the country's total land area, is only for self-sufficiency, and raising the amount of commodities such land produces is very difficult, or else it can produce only a limited amount of marketable products. Consequently, to raise prices on the basis of production costs on poor-quality land means that the benefit to production teams on the relatively large amount of poor-quality soil would be a very long way from the surplus profits of production teams that farm superior-quality land. Second, the socialist system and the capitalist system differ. Under the socialist system, the state can use methods other than prices, such as reduction of or exemption

⁵ "Collected Works of Marx and Engels," Vol 25, pp 744-745.

from taxes, uncompensated investment, and credit assistance in a planned and focused manner, to provide assistance to places and units in which production conditions are poor, and the role of these methods is much more concentrated and effective than price methods. Thus, it is not necessary to resort to price rises that may bring about other great contradictions in order to protect producers on poor-quality land.

The advantage of the method used in China today of formulating prices on the basis of costs in production teams having middling conditions is that it is not at variance with the historical basis for agricultural product prices, and that it equitably and gradually readjusts agricultural product procurement prices without going beyond the limits of national resources to build an equitable price parity relationship between industrial and agricultural products. In so doing, those production units that farm superior-quality land can continue to obtain a certain differential income. Furthermore, as the degree of agricultural intensivity and labor productivity steadily rises and the country's planned prices remain relatively stable, they are able to make a fairly large income, which helps arouse their enthusiasm for production. As far as the production units that farm the relatively large amount of poor-quality land are concerned, they too can keep up fairly easily with the help of various national economic measures. Given correct leadership, not only will their enthusiasm not be dampened but rather will be spurred.

Surely our present way of doing things is not without faults. One major problem is the lack of regional price differences or else too small price differences. This arbitrarily uniform way of doing things is not in keeping with concrete circumstances in a country such as China with its vast land area and complex geographic and climatic conditions, nor does it help in coping with various contradictions in working out prices that arise in consequence.

The smallness of regional differences in agricultural procurement prices in China has been the case from the very outset. It has come about through a development process. Regional price differences for grain were very great up until the time the whole country was liberated. Grain from rural villages, and particularly from minority nationality areas and distant mountain areas, was purchased at a low price and hauled into cities and towns where it was sold for several times the price for staggering profits. Producers and consumers alike were exploited. During the period immediately following founding of the nation, prices also varied fairly greatly between historical grain-producing areas and grain-marketing areas, between inland and coastal areas, and between remote mountain regions and places where transportation was readily available. In southwestern and northeastern China, grain prices were low; in north and east China, grain prices were high. Up until 1953, during the period when the country still permitted private traders to deal in grain, the principle was generally applied that allowed private dealers to make or maintain a small profit with state-owned enterprises neither losing nor gaining. This was done in order to stimulate exchange between cities and the countryside, and to help use, limit and transform private capital, and there were price variations in procurement prices in producing areas and in market prices in marketing areas. In 1953, following institution of monopoly

procurement and marketing of grains, private dealings in grain were banned. As agricultural production developed and transportation conditions changed, in order to look after the interests of peasants in areas with low grain prices, the price the state paid for grain in areas with low grain prices was raised a little whenever prices were readjusted, and this gradually narrowed regional price differences. In 1957, a minimum protection price was also decreed in grain procurement from mountain regions and remote areas. Following the grain price readjustment of 1961-1966, very great changes occurred in regional price differences. Price differences between cities and countryside were abolished throughout the country, and sectional prices were instituted within a single province for some kinds of grain. In other cases, a single price was instituted for the whole province or for several provinces. Today, the procurement price for early xian paddy in all the southern provinces is substantially the same, and most places have a single price for soybeans. The highest and lowest price paid for wheat throughout the country differs by only 1.7 yuan per 100 jin. Moreover, the per unit yields and production costs of these agricultural products varies very greatly in different areas. For example, a representative nationwide sampling shows the cost rate for production of early xian [long-grain nonglutinous] rice in 1979 (cost per 100 yuan of output value) to have been 58.6 percent in Zhejiang Province and 75.58 percent in Fujian Province. The production cost rate for soybeans was 31.97 percent in Heilongjiang Province, 91.42 percent in Liaoning Province, and 113.82 percent in Fujian Province. The production cost rate for wheat was 51 percent in Heilongjiang, and 191.6 percent in Guangxi Province. Because of the wide disparity in yields and costs between one region and another, setting prices on the basis of costs in places or production units having middling production conditions causes difficulties in carrying out expansion of reproduction for places and production units farming poor-quality land. But were prices set on the basis of costs in places or production units that farmed poor-quality soil, agricultural product procurement prices would inevitably rise greatly, and this could not be permitted for the sake of the country's financial and material resources. Not only this, but sometimes a price rise for certain agricultural products might give rise to new contradictions for agricultural product internal price parities within a region. Take cotton, for example, for which the cost disparity is very great for yields in various parts of the country. In 1979, yields in the north China region averaged approximately 54 jin per mu; in the Sichuan region, yields averaged approximately 74 jin per mu; and in the Shanghai region, yields averaged approximately 124 jin per mu. Since yields in the north China region were low, costs were high, so north China hoped that prices could be raised as high as possible. However, were cotton prices to be adjusted upward on the basis of the north China region cost-profit situation, new contradictions would ensue for Shanghai, i.e., the price parity between grain and cotton would favor the growing of cotton but not grain and peasants would abandon grain farming to grow cotton. This would be extremely disadvantageous for planned apportionment of grain and cotton crops. The way to solve this contradiction should be gradual transition to zoned economic regions using average social costs as the basis for different economic zones, i.e., to set prices on the basis of production costs in production teams having normal annual harvest, average soil conditions and an average level of administration and management. Practice of this method would mean no further rise in any given year of farm crop prices in regions

where superior-quality land predominates, but only a rise in farm crop prices in places having poor-quality land, or alternatively upward or downward readjustments within a region on the basis of inequities in farm crop parity prices. This would make agricultural product procurement prices more equitable, and at the same time would not give rise to a chain reaction of rising prices on a national scale. It would also not lead to excessive widening of the gap between rich and poor as a result of agricultural product price readjustments, nor would it place an overly heavy burden on the national treasury.

Once the setting of prices in individual price zones had been instituted, imbalances could possibly exist in small areas within a large region. In remedying this contradiction, consideration should be given to price subsidies or financial credit assistance to production units having the worst soil conditions in the region. Institution of price subsidies and financial credit assistance differs from readjustment of plan prices in that it would neither lower nor raise the overall level of procurement prices for agricultural products; thus it would not create a chain reaction on market prices. However, price subsidies and financial credit assistance also differ. The former can play a role in encouraging production units with marketable products to sell, while the latter can stimulate backward production teams to strive to raise their marketable products rate. The latter is thus an indispensable method for assisting seriously needy communes and brigades that are unable to increase marketable products.

The setting of prices by zone has already been tried in some foreign countries, such as the USSR, where agricultural procurement prices are set by the zone method. After Brezhnev came to power in 1965, an even larger number of price zones were made that widened the difference between maximums and minimums. Up until 1965, there had been only 15 wheat price zones and the maximum price was only 31 percent higher than the minimum price. Readjustments were made between 1965 and 1969 and again between 1970 and 1972, and the number of price zones increased from 15 to 43, with the maximum price being 117 percent greater than the minimum price. Up until 1965, there were 12 milk price zones, and the maximum price was 38 percent higher than the minimum price. Between 1970 and 1972, the number of price zones increased to 113, and the maximum price was 265 percent higher than the minimum price. In addition to increasing the number of price zones in the country, the USSR also considered setting prices in various subzones within a zone. This was because of the still great size of some zones and the very great differences in soil, precipitation and temperature. Use of average costs as a basis for setting prices in such large zones led to costs still being higher than the zone average, with rural villages and farms still being at a disadvantage. The rationale for this action in the USSR was both to stir enthusiasm in rural villages in which production conditions were relatively poor through the use of price levers without raising the overall level of agricultural product procurement prices.

Hungary's method of handling differential income was in the context of formulation of agricultural product prices, with farming conditions on middling land being the general standard. For the 28 percent of rural cooperatives

in the country having poor natural conditions, the state provided a 10 to 20 percent price subsidy, poor cooperative members' incomes thereby becoming no lower than 15 percent of the income of other agricultural cooperative members. This method was used to support agricultural cooperatives having relatively poor conditions. A progressive tax was levied on agricultural cooperatives farming superior-quality land in order to offset some of their differential income.

The setting of prices by zone can narrow the differential income from superior-quality land; however, we must distinguish and treat separately the several forms of differential land incomes.

The first differential land income Category I circumstance results from the degree of land fertility, which is manifested in price differentials between one production region and another. The second circumstance is the result of the distance from markets of the land, and is manifested in a differential between production and marketing regions. These two circumstances should be handled differently. In the case of different prices between one producing region and another, the aforementioned method of setting prices according to intermediate conditions in individual zones may be used. However, when setting prices, the extent of regional price differences must be properly understood, and there should not be too great a division into subzones. If the degree of regional price differences is set too high, and there are too many subzones, production units having superior land will be virtually unable to make any differential income. That would be bad for the development of production in places having fairly good natural conditions, and bad for encouraging the growing of certain farm crops in places having suitable natural conditions but that are not yet growing them. Thus, it would be bad for specialization in agricultural production. Conversely, too small a setting of the degree of regional price differences would not permit the zonal setting of prices to play the role it should. In setting prices by zones on the basis of soil quality, consideration must also be given to soil not being of poor quality in an absolute sense. The soil may be poor for a certain crop, but may be middling or even superior for another. For example, the average national yield for peanuts is currently 70 jin per mu, but the average yield for Yantai Prefecture in Shandong Province is 310 jin per mu. Sugar yields for the country as a whole average 1 ton per 4-plus mu, but on the Pearl River Delta in Guangdong Province, the yield is 1 ton from only 1.7 mu. Sugar yields from sugarbeets for the country as a whole average 1 ton per 16 mu, but in major growing areas of Heilongjiang and Jilin provinces, the average yield is 1 ton per 6 mu of sugarbeets. Several years ago, these areas grew grain on land suited to the growing of peanuts and sugarbeets, while other places used land suitable for the growing of grain but not suitable for the growing of sugarcane or sugarbeets. Cotton is another example. The entire cottonfield area of Jiangxi Province is again as much as in Tianmen County on the Jiangnan Plain, yet gross output is only slightly more than two-thirds that of Tianmen County. Liaoning's cotton yields are even lower, averaging less than one-fourth the Tianmen County yields. Yancheng Prefecture in Jaingsu Province has a marine climate, four distinct seasons, a temperate and wet climate, copious rainfall, ample sunshine, and coastal salinized soil that has been substantially cleansed of salt through long-term improvement. Since cotton is fairly strongly salt-tolerant, this region has

an advantage for growing cotton, which makes more economic sense than growing grain. Thus, generally speaking, when production conditions are poor, output low, and costs relatively high for an agricultural product in a dispersed production area, but society needs this region's production, prices should be somewhat higher in order to encourage their production. However, whenever the country wants to limit production of an agricultural product for which economic results are poor in order to suit general methods to specific circumstances, play up strengths and play down weaknesses, and make the most of advantageous crop patterns, the price that is set should not be high so as to favor making the most of advantages. So in setting prices by zones, parity prices for various crops should be set in terms of natural conditions and the crops that the soil is suited for growing; there can be no stereotyping.

The second differential income Category I circumstance results from distance to markets, necessitating a certain regional price difference based on circulation routes for commodities between producing and marketing areas, transportation conditions, and distances. Thus, when setting the prices of agricultural products, transportation expenses should be taken into consideration. For example, it should be ruled that communes and brigades shall be responsible for transportation expenses when communes and brigades sell the state agricultural products within a certain distance from procurement stations, the state providing a transportation subsidy for greater distances. This will help the formation of a rational pattern of agricultural production, will help the exchange of goods among regions and advance commercial units organizing the flow of commodities by economic regions, and will help procurement of agricultural products from mountain regions or remote areas where transportation is extremely scarce to satisfy the people's needs.

Category II differential land income results primarily from the intensitivity of agriculture. It depends not just on some state investment but mostly on the strength of the collective economy itself. Under present circumstances, collective farming primarily depends directly on a greater investment of live labor by production teams farming the land and by other commune members. Consequently Category II differential land income should revert mostly to collective ownership, particularly to the ownership of production teams and commune members. Thus, in setting regional price differences, these factors should be taken into consideration.

B. The problem of how to correctly figure compensation to labor.

It was previously said that the zoning of prices for agricultural products should be done on the basis of the average land condition in normal harvest years and the average level of production team administration and management, and that production prices should be the main basis for setting prices of agricultural products. Agricultural product costs generally reflect the C + V portions of the agricultural production process. In a collective economy, how to figure compensation of commune member labor (V) is a fairly controversial question about which no consensus has been reached as yet.

First of all, there is no unanimity of views as to whether or not compensation of commune member labor should be made a part of agricultural product

costs. One view holds that to figure compensation of commune member labor as part of costs would create contradictions since use of a workpoint system means the amount of compensation shifts according to whether the harvest is a bumper one or a lean one. If an increase in yields results, there will be no lowering of costs per unit of labor, or costs may even rise. If a decrease in yields results, costs per unit of labor will not rise, but may decline instead. There will be a lack of comparability, so it is proposed that compensation for commune member labor not be made a part of costs. We maintain that unless agricultural products costs include compensation to commune member labor, costs will not reflect completely the amount of social labor required to produce a certain product, and that the cost will not be complete. They can be used only in figuring net output value, and cannot be used as a cost basis for setting prices.

If compensation to labor is figured into costs, this produces a problem in how to evaluate live labor in currency terms.

One view is to figure it on the basis of the actual daily value of labor in the producing unit. Though this method would reflect the production unit's actual expenditures for the year, and would benefit improved administration and management, it would not reflect actual expenditure of human labor. In addition, it lacks comparability because workpoint value is not the same as wages. The amount of wages is set in advance and is static, while the value of workpoints cannot be figured until the final yearend settlement. Use of workpoint value as a standard is actually tantamount to having no standard at all. Use of workpoint value as a standard for figuring labor costs and then basing the figuring of agricultural product costs on this is unscientific.

Yet another view is that the expenditure of live labor should be compared against uniform objective standards for various regions and times. But there are several conceptions of what constitutes objective standards as follows:

The first conception is the averaging of wages in industry, agriculture and other trades, using this average to figure the theoretical cost of compensation to agricultural labor. In reality, this method indicates eradication of differences between industry and agriculture, which is obviously not realistic. Furthermore, living expenses are higher for industrial workers than for peasants, so such a simple average is unscientific.

The second conception is that the wages paid workers on stateowned farms should be used. Though the average wage paid staff members and workers in forestry, water conservancy, and meteorology owned by the whole people in the country (548 yuan in 1979) was lower than the average wage for staff members and workers in industry owned by the whole people (705 yuan for the same year), it was several times higher than peasant income derived from collectives (83.40 yuan for the same year). Consequently, use of this standard to evaluate labor costs for paying compensation to people's commune workers is also unrealistic. Since staff members and workers in enterprises owned by the whole people have no income from private plots or household sideline occupations, this method also lacks comparability.

The third conception is based on average wages in commune and brigade enterprises. Though this is substantially comparable, simply because distribution of commune and brigade enterprises is very uneven, much in some places and little in others and some places having none at all, use of this as a yardstick does not fit in with realities.

The fourth conception is to use the social average compensation of all agricultural labor throughout society as a standard for evaluating workdays. In 1965, using the average compensation in society at that time, the State Price Bureau figured a national uniform labor cost of 0.80 yuan as a uniform standard for figuring compensation to labor. This method is in conformity with the principle of setting costs on the basis of production costs per unit of area of intermediate-quality land, and all figures derived are average ones. The advantage in setting a uniform labor cost is to make live labor expenditures comparable; the shortcoming is that it cannot reflect changes in actual commune member earnings. Consequently, the actual distribution value for each standard workday was appended to survey tables for each cost point as reference data.

During the last 2 or 3 years, agricultural production has expanded, peasant income has increased, and consumption levels have risen so that labor costs generally approximate the national actual workday average. In 1981, the state decided to readjust from 0.80 yuan to 1.00 yuan the uniform labor cost of agricultural and sideline products such as grain, oil, and cash crops. This was used as a basis for actual survey data. According to cost point data, the average actual workday value for grain was 0.98 yuan in 1979 and 1.03 yuan in 1980; and thus readjustment of the uniform work price to 1 yuan was fairly equitable.

Some people have proposed that work force reproduction expenses should be the standard for uniform labor costs. The definition they use for labor force reproduction expenses is expenses necessary to workers maintenance of their own and their dependents' means of livelihood, including all expenses incurred in all-around development of an improved material and cultural standard of living. They use the following formula to derive a national average workday value of 1.39 yuan:

$$\text{Standard workday value} = \frac{\text{living expenses needed by entire family for the whole year}}{(365 - \text{legal holidays}) \times \text{number of workers in whole family}}$$

The shortcoming of this method of calculation is that it is based on theory rather than fact. The country's peasant work force reproduction expenses are the actual compensation for labor that the work force receives, and the country's peasant work force carries out work force reproduction on the basis of this labor compensation. Labor force reproduction expenses, productivity levels and living expenses differ in individual countries. Though compensation to agricultural labor is currently fairly low in China, it is commensurate to the current level of agricultural production and one cannot say that this level of compensation is inadequate to support expenses for

their own and their dependents' means of livelihood. Neither can one say that this level of consumption impedes the all-around development of peasants and uplifting of their material and cultural standards of living. We should not become divorced from the current productivity level and the actual distribution value of a workday and design yet another set of standards for work force reproduction expenses.

Though reference to actual workday value is a fairly realistic and feasible method for formulating a uniform labor expense; nevertheless, inasmuch as China has a vast territory in which natural conditions and standards of living vary very greatly, a uniform standard for the country as a whole cannot correspond to the complex circumstances that actually exist. Consequently, if prices are to be set by zones in the future, then it would be best to formulate uniform labor expenses by zones as well.

C. The problem of which profit rate to use in determining agricultural product prices.

In addition to costs, profit must also be included in the price of agricultural products. This corresponds to the M part of value. A fair profit must be decided in order to assure expansion of reproduction and the peasants' common welfare.

Whether the profit level in agriculture should be figured in terms of the profit rate on funds, the profit rate on costs, or the profit rate on wages is a controversial problem. This problem must be studied in terms of the characteristics of agricultural production as well as the actual circumstances of agricultural production in the country.

Since the current organic structure of China's agriculture is currently especially low and since the level of gain will be much lower than for industry, to set price gains on the basis of calculation of the profit rate on funds would disadvantage development of agricultural production. Calculations based on wage gains would greatly increase agricultural product prices, and national strength will not permit this. Neither is it appropriate. Inasmuch as all trades and industries currently set prices on the basis of cost gain rates, we believe that, for the time being, the cost gain rate is fairly appropriate for setting agricultural product prices.

Gain includes both taxes and profits. The lowest limit of gain may not be lower than the total of agriculture taxes and the public accumulations that the collective must withhold. If it is lower than this limit, that would lead to communes and brigades having no way to pay agriculture taxes or no resources with which to expand reproduction. However, agricultural gain cannot be too high either; otherwise, prices of agricultural products will rise tremendously to the impairment of national accumulations. Therefore, the main problem lies in concurrent concern for the welfare of the country, collectives and individual commune members, and in correct handling of the relationship between consumption and accumulations, and between current and long-range interests.

Calculations made on the basis of data about distribution of rural earnings throughout the country for the 3 year period 1978-1980 shows communes and brigades as having annually paid the state 3.23 percent of earnings as taxes, that collective withholdings came to 9.05 percent of gross earnings and that the average cost gain rate was 14.41 percent.

Some people suppose that low prices for agricultural products serve to depress this gain rate. Though there is a relationship between the size of the agricultural cost gain rate and how high prices are, there is no direct connection because the workpoint system is used in compensating labor. The size of the gain rate is thus decided by the proportional distribution of earnings at the end of the year and by how high the national tax rate is. For example, figured on the basis of national rural earnings distribution data for 1975, the cost gain rate was 17.73 percent. It declined to 15.35 percent in 1979. But everybody knows that in 1979 prices for agricultural products rose rather than declined. So why did the gain rate decline? Mostly because of a decline from 4.02 to 3.23 percent in the proportional national agriculture tax, and a decline from 10.93 percent to 9.53 percent in proportional collective withholdings. Simultaneously, labor compensation paid commune members rose from 51.44 percent to 53.12 percent for a rise from 63.22 to 83.4 percent in average per capita distributions. Conversely, absolute figures for agricultural tax revenues and collective figures did not decrease but rather increased. Agriculture taxes rose from 3.717 billion yuan to 3.986 billion yuan and collective withholdings rose from 10.105 billion yuan to 11.761 billion yuan. One might say that concurrent concern was substantially shown for the interests of the country, collectives, and commune members.

Some people also suppose that on the basis of the principle that an equal amount of profit derives from an equal amount of funds, the average 14.41 percent cost gain rate in agriculture of the previous 3 years (1978-1980) seems too low in comparison with that of industry (in 1978, the cost gain rate for industrial enterprises was 20 percent). They believe that the gain level for agriculture should roughly approximate or be higher than the gain level for industry if the synchronous rise in agricultural production and industrial production is to be assured. We believe this view also merits discussion.

The systems of ownership in industry and agriculture differ. Industrial enterprises are under a system of ownership by the whole people, so an overwhelmingly large portion of their profits is paid to the state to meet the needs of the whole society, with enterprises keeping only a small portion. Agriculture, however, is under a system of collective ownership, and only a small portion of gains is paid to the state, most reverting to the collective ownership of commune members. This is a matter of the redistribution of national income throughout the economy as a whole, and not a matter of the benefit relationships among industrial enterprises, or between workers and peasants. Since workers are paid through a wage system, profits from enterprises do not revert to ownership of the workers. The relationship between workers and the enterprises is only in bonuses and welfare portions. Consequently, direct comparisons of the gain level of industry and agriculture are unable to explain the question of whether worker and peasant earnings

rise synchronously. We believe that the size of the gain rate for setting prices of agricultural products should be based on the characteristics of agricultural production itself, and should be set in terms of concurrent concern for the interests of the country, the collective and commune members.

Prices of agricultural products should not only compensate expenditures for materials used in agricultural production, but should also permit a rise in both agricultural taxes paid the state and the level of commune member income in normal harvest years, and a certain amount of public accumulations should be used to expand reproduction and for collective welfare. However, in addition to funds available from agriculture itself for the expansion of production, support from national industries should also be calculated. Sole reliance on funds derived from agriculture makes it difficult to modernize agriculture, particularly in poverty-stricken areas. In short, in working out planned procurement prices for agricultural products, it is necessary to defray expenditures for seeds, fertilizer, pesticides, draft animals, farm machines, depreciation of farm equipment and compensation for labor, to guarantee payment of agriculture taxes to the state, and to guarantee that communes and brigades have a certain amount of accumulations to expand reproduction, following the principle of improvement of peasant standards of living on a foundation of increased output and increased earnings. This is the principle of concurrent concern for the interests of the country, collective and individuals, and concurrent concern for the interests of industry, agriculture, workers and peasants. Such planning of prices reflects the special form in which price laws are manifested under the effects of the laws of planned development of basic socialist economic laws. Such an exchange of goods at equal price means an exchange at equal price in the differential distribution of net earnings while guaranteeing that costs are compensated.

4. Internal Price Ratios and Price Differences Among Agricultural Products

The foregoing discussed price ratio problems between industrial and agricultural products. This section further examines problems with price ratios and price differences among agricultural products.

Price ratios among agricultural products refers to the comparative price relationship among different agricultural products in the same markets at the same time. Planning comparative price ratios among various agricultural products is decided basically by their value in proportion to each other. However, consideration must also be given how the production and consumption situation for various agricultural products and how their importance to the national economy and the people's standard of living may be at variance with value. Price structure affects production structure. When price ratios are fair, regulation of the production structure through economic benefits, and promotion of the planned, proportional and coordinated development of each production sector is possible.

In China, most agricultural production is under a system of collective ownership. People's communes carry out production under guidance of state economic plans and are responsible for fulfilling state procurement plans, while at the same time, they are independent operating units responsible for

their own profits and losses that must observe commune and brigade rights of self-determination in production. Therefore, in order to assure planned development of agricultural production, they must consciously apply value laws and set equitable comparative prices for all agricultural products in order to encourage or limit production of various agricultural products, thereby making the proportion of development within agriculture basically correspond to national plan requirements.

Grain is a staple agricultural product. It is the major means of livelihood of the Chinese people, and it is also the material foundation for development of agricultural production. Without development of grain production, the nation's needs for grain cannot be assured and both increased agricultural production and expansion of cash crop production would be impossible. Grain prices are closely related to the price level for all other farm crops, and they have a bearing on the price levels of other products outside agriculture. The fairness of grain prices is the prerequisite, the basis, for fair prices of other agricultural products. For this reason, we must use grain prices as the center for rational setting of price ratios between grain and cash crops (such as cotton and grain, hemp and grain, tobacco and grain, etc); price ratios between grain and animal products, as well as price ratios between grain and native products.

In working out price ratios for agricultural products, most important is how to handle correctly the proportional relationships between grain crops and major cash crops. Grain crops and cash crops take up most of the cultivated land area, and they are also the crops that compete with each other for land. In a situation of a fixed amount of cultivated land area, provision should be made for more grain crops and fewer cash crops. Thus, in accordance with the policy of "taking grain as the key link, with all-around development, suiting of general methods to specific situations and proper concentration," the price of grain should be used as the basis for planned, equitable working out of price ratios among all agricultural products, and it is of extremely great significance with regard to price ratios for cash crops. Whether or not price ratios between grain crops and cash crops have been equitably worked out plays a role in promoting or impeding proportional production of farm crops. When the price of grain is overly low, development of grain may be adversely affected. When the price of cash crops is overly low, development of cash crops may be adversely affected.

Comrade Mao Zedong had the following to say in 1956 on the issue of agricultural price ratios at the Second Plenum of the Eighth CPC Central Committee: "Comrades should please give attention to problems with grain, pork, hen's eggs and vegetables. These problems are rather large ones. Ever since last winter, emphasis had been on grain to the neglect of sideline occupations and cash crops. Later on this error was corrected and people went in for sideline occupations and cash crops. Especially ever since the fixing of price ratios for the 20 items and the 30 items such as cotton and grain, oil and grain, pork and grain and tobacco and grain, etc, the peasants developed large appetites for sideline occupations and the growing of cash crops, and out went grain. It began with tilting a little toward grain, then tilting a little toward sideline occupations and cash crops. Low-priced grain hurt

farming. When your grain prices are so cheap, the peasants do not want to grow grain. This problem deserves serious attention."⁶ This demonstrates clearly the major significance and role of setting equitable price ratios for agricultural products centering around the price of grain.

Take readjustment of the price ratio between cotton and grain as an example. During the period immediately following liberation, firm control over an equitable price ratio between cotton and grain resulted in a fairly substantial rise in the price of cotton, which assured a rapid increase in cotton output. According to incomplete statistics, the price ratio between cotton and grain (figured for wheat, and the same applies hereinafter) in cotton-growing areas in 1949 was only around 1:6. As compared with the 1:7 ratio between cotton and grain for the 1931-1936 period, this was somewhat low. As a result, the area sown to cotton declined from 4 percent of the area sown to grain to around 2 to 2.5 percent. Price ratios between cotton and grain began to be readjusted in 1950 at an average of 1:9.2, and the price of cotton rose about 30 percent as compared with the 6 year average before the War of Resistance to Japan. As a result, the area sown to cotton in 1950, rose from the 41.55 million mu of 1949 to 56 million mu, and by 1951, it rose again to 82.77 million mu. Output also increased from the 8.89 million dan of 1949 to 20.61 million dan for a major breakthrough in the pre-War of Resistance level. After 1953, the price ratio for grain remained stable at the 1:8 level. Practice has demonstrated this price ratio relationship to be correct and equitable, and it has thus advanced both grain and cotton production. Statistics show that during the 10 years from 1949 to 1958, grain output rose from 226.4 billion jin to 400 billion jin in an average annual 8.5 percent increase. Cotton output rose from 8.89 million dan to 39.38 million dan in an average annual 38 percent increase. Since 1958, several fairly large readjustments have been made in the country's grain procurement prices. In 1961, they were increased 24.6 percent, and in 1966 they were increased by another 17 percent. By 1978, grain procurement prices were 58 percent higher than in 1958. During the same period, the procurement price for cotton rose only 32.5 percent. Since the extent of price rise for grain was greater than for cotton, the price ratio between cotton and grain was less than 1:8, thus dampening cotton farmer enthusiasm for production and cotton output declined. By way of adjusting the ratio of grain to cotton, in 1978 the cotton procurement price was increased 10 percent and simultaneous with a 20 percent rise in the price of grain in 1979, it was raised another 15 percent. Nevertheless, the price ratio between cotton and grain remained slightly lower than the 1:8 level. Therefore, in 1980 the cotton procurement price was raised another 10 percent. This is an example of the country's conscious application of the laws of value to the regulation of the structure of agricultural production.

Equitable working out of price ratios for agricultural products requires conscious and correct application of the laws of value, and diligent implementation of the policy of "positively no slackening of grain production while actively developing economic diversification." It also requires proceeding from realities, doing all-around planning taking all factors into

6 "Selected Works of Mao Zedong," Vol 5, pp 316-317.

consideration, and equitable arrangements on the basis of state plans and the market supply and demand situation to help readjust the structure of agriculture and to advance the planned, proportional development of agriculture. It requires use of the principle of exchange at equal price so that price ratios among all agricultural products and the cost ratio among all agricultural products correspond with each other, and so that roughly identical earnings can be obtained from the same expenditure of labor for grain and other agricultural products.

In working out price ratios between cash crops and grain, consideration should be given to earnings that are somewhat higher than for grain for the production of cash crops that are highly marketable, require much technology, much intensity of labor, a long production cycle and substantial risks; however, each should be handled on a case by case basis. In places suited to development of grain production and on commodity grain bases, earnings from grain production should be somewhat higher than are possible for cash crops that compete with grain for land, fertilizer and manpower so that these crops do not squeeze out grain production. At commodity bases suited to development of cash crops, it will be necessary to suit general methods to specific circumstances. Earnings from crops suited to concentrated development in accordance with plan requirements may be somewhat higher than earnings from grain production. Earnings from the production of crops that do not compete with grain for land may be somewhat higher than for grain; however, they should not be too high. If they are too high, they may squeeze out development of grain production.

The ratio between procurement prices for animal products and grain must be worked out correctly. The price paid for animal products should be set on the basis of the raw and processed materials that have gone into them. The value of meat, milk, leather and hair is determined largely by the value of fodder and the labor consumed in raising the animals. Consequently, the procurement price of animal products should be set on this basis and in comparison with the prices set for other agricultural products. If the procurement price for animal products is set too low so that it is only equal to or slightly higher than the value of fodder, that will be bad for development of the livestock industry, and the country will get no animal products. Conversely, if the procurement price for animal products is set too high, that may lead to use of an excessive amount of grain as animal feed, which will adversely affect grain procurement. In 1979, when grain procurement prices and prices paid for work consumed in raising livestock were raised and caused a rise in costs for hog, cattle, sheep and goat fodder, the state adjusted correspondingly the procurement prices paid for hogs, cattle, sheep and goats. As a result, an overwhelming majority of places received a fair return from the raising of hogs, cattle, sheep and goats. For example, 1978 survey data on commune member hog raising in 23 provinces, municipalities, and districts showed the average cost of raising a live hog to have been 118.07 yuan per head (which converts to 64.73 yuan per 100 jin), while in 1979 the cost averaged 126.59 yuan per head (which converts to 67.84 yuan per 100 jin). This was an 8.52 yuan increase (or a 3.11 yuan per 100 jin increase), which amounted to a 7.2 percent increase (or a 4.8 percent increase per 100 jin). Since the procurement price for live hogs was increased 24.4 percent, which was greater than the increased costs for fodder,

earnings from hog raising increased. In 1979, net profit from hog raising was 20.42 yuan per head (which converts to earnings of 10.94 yuan per 100 jin) versus a 1978 loss of 1.06 yuan per head (which converts to a 0.58 yuan per 100 jin loss). If the cost of labor used is included, earnings in 1979 came to 41.29 yuan per head (or 22.12 yuan per 100 jin) versus 13.12 yuan (or 7.19 yuan per 100 jin) in 1978, an increase of 28.17 yuan (or 14.93 yuan per 100 jin). Once hog procurement prices had been raised, commune member hog raising became profitable, giving impetus to commune member enthusiasm for hog raising. In 1980, 198,607,000 hogs were removed from inventory versus 187.68 million in 1979 for an increase of 10,927,000 head or a 5.8 percent increase. Fattened hog procurement for the whole year was 133 million head, more than 3 million more than in 1979. Were commune member earnings from hog raising about right once hog procurement prices had been raised? In 1956, the State Council set a hog raising program of "private ownership, private raising, and public assistance," and a 7 January 1957 Central Committee report addressed to urban service departments said that peasants could realize a profit of between 180 and 250 jin of unprocessed grain per hog raised (using 140 jin as the standard). Computations made on this basis show that in the foregoing case gross weight of hogs averaged 186 jin for which earnings would amount to between 240 and 333 jin of unprocessed grain. Converted to the monopoly procurement price for grain, this would be 30.86 to 42.81 yuan. In 1979, earnings averaged 41.29 yuan per hog (including labor price income), which is fundamentally in accord with the foregoing standard.

At the time when some people criticized erroneous tendencies in the farming and animal husbandry structure as "taking grain as the key link for all-around denudation," they urged imitation of Western Europe and raised the slogan of "taking the road of development of animal husbandry as the key link." This merits discussion as a strategic problem in development of agriculture. A survey of the history of the development of agriculture in every country of the world shows development centering around grain first. Only after grain output became stable and there were some surpluses did overall development of the relatively independent sectors of vegetables, fruits and animal husbandry occur. Development of animal husbandry requires feed, and those engaged in animal husbandry also need grain to eat. It takes more than six times as much grain for humans to get the same number of calories from animal products that they can get from grain directly. In developed countries today, it takes roughly 7 jin of grain per jin of beef produced, 4 jin of grain per jin of pork, and 2 jin of grain per jin of chicken. In the United States, feed consumption for meat, milk and eggs amounts to as much as 1,990 jin per capita per year. Fortunately they are able to produce it themselves. In 1978, the United States produced an average 2,504 jin per capita of grain. Lacking grain, large-scale development of animal husbandry, and especially making it a "key link" is not very possible unless grain is imported. In 1976, Japan relied on imports for 60 percent of its cereal grains. Of the 2.06 million tons of enriched feed required for animal husbandry, 15.67 million tons also derived from imports. Without such large imports of grain, Japan's animal husbandry could not have developed. Because of the loss of control over population in China, for a long time grain consumption has hovered around an average 600 jin per capita. This is vastly lower than for the United States, and it is also lower than the world average

of 700-odd jin. Development of the hog-raising industry in recent years would not have been possible but for the importation of some grain. This is all right as a short-term measure; however, long-term dependence on grain imports to develop the livestock industry is a road that is closed to China in view of its present circumstances. In short, we must apply correctly a policy of "absolutely no slackening of grain production while actively developing economic diversification." This policy must also be pursued in planning parity prices for agricultural products. Naturally this is not to say that no potential remains to be tapped in development of the country's animal husbandry. In places having the requisite conditions, use of mountain slope grasslands to do everything possible to raise some livestock is also a way to develop economic diversification.

The ratio between procurement prices for special local products and grain would be fair. Most grain is produced by collectives, but many special local products are produced by individuals. Thus, in setting procurement prices for special local products, it is sometimes necessary to consider country fair price levels; however, this should not result in impairment to the principal agricultural products that are collectively produced.

In planning the setting of agricultural product procurement prices, not only is it necessary to set correctly the proportional procurement prices for all kinds of agricultural prices, but also necessary to guarantee proportional procurement prices for various products within the same category of agricultural products (such as various kinds of grain crops, various kinds of animal products, and various kinds of timber). It is necessary to plan correctly procurement prices for all kinds of mutually interchangeable feeds in order to advance rational use of all kinds of feeds. In setting proportional prices for meat and leather, the price for leather should be higher than the price for meat in order to encourage an increase in the leather commodity rate and increase the availability of leather. However, it is necessary to set standards for leather thickness; otherwise the amount of flesh left on hides will increase. Procurement prices for wool and mutton should encourage increased output of wool.

There has been a certain historical continuity in the formation of agricultural commodity prices; thus historical data should be consulted when working out price ratios for agricultural products. Agricultural product comparative price data from over the years should be studied for an understanding of inherent relationships and an exploration of patterns. Thus, historical data on price ratios is of definite value for reference in our future planning of agricultural product price ratios. It is not suitable, however, as the principal basis for readjustment of prices for grain and other agricultural products. Prior to liberation, the ratio of the natural economy was large in the country's rural villages, and the commodity economy was undeveloped. Imperialists, bureaucratic capitalists and the national bourgeoisie developed light industries using agricultural products as raw materials in cities having readily available transportation. While relying on imported raw materials, they simultaneously purchased certain industrial raw materials at fairly high prices in order to stimulate the peasants to increase production of them. At that time quantities were small and prices high. Right at

the time of liberation, importation of raw materials declined precipitously and it became necessary to maintain or raise prices paid for cash crop products. As a result of 30 years of building the economy, very great changes have taken place in both production conditions and production levels for all agricultural products, and this has been accompanied by changes in yields per unit of area, production costs and earnings. At the same time, certain inequities will also exist in parity prices at certain historical periods. If historical price ratios are to be maintained unchanged, when the price of grain is raised, prices of other products will have to be raised by the same amount. The greater the increase in price by the same amount, the greater the disparity between real earnings from grain and cash crops. Therefore, in readjusting agricultural product price ratios, one cannot take turns raising prices on the basis of historical price ratios. Generally, one can only increase appropriately the prices of certain agricultural products that tend to be too low. One cannot do what has been done in the past of first raising grain prices when the grain price is low and then, after having raised grain prices, raise prices proportionally for all other agricultural products in relation to grain prices, with the result that the price of grain remains "at the center of the bottom of the pot." Obviously, one-sided emphasis on historical price ratios as a basis for readjusting price ratios is inappropriate at the present time when some places or departments want to use it to raise prices for certain agricultural products.

Price ratios between tobacco and grain are an obvious example. Large-scale growing of tobacco began in Xuchang between 1915 and 1918. In order to stimulate the growing of tobacco at that time, British and American capitalists maintained the price ratio between tobacco and wheat at a high 1:27. At that time, the yield from a mu of tobacco (181 jin) could be exchanged for 4,887 jin of wheat, and wheat yields averaged about 160 jin per mu. This is to say that the growing of 1 mu of tobacco was equivalent to growing 30 mu of wheat, and the area planted to tobacco increased very rapidly as a result. After 1919, as production increased, the price ratio declined tremendously; nevertheless, income from growing tobacco was still much higher than from the growing of wheat. As a result, even though the price ratio between wheat and tobacco had fallen to 1:7.5 by 1948, the tobacco growing area had increased to 1.02 million mu from the earlier 72,000 mu. During the period immediately following liberation, the price ratio between tobacco and wheat was maintained at 1:7. Despite a drop to 1:5.2 in 1956, the growing area increased to 1.24 million mu the following year. This showed continuation of a large price ratio. From 1968 to 1978, the ratio between tobacco and wheat was maintained at 1:5.3. Why was it that despite decline or stabilization of parity prices the area sown continued to expand? Mostly because of a rise in the labor productivity rate. During the 11 year period 1915-1925, tobacco yields averaged 181 jin per mu; during the period 1969-1979, they increased to 317 jin for a 75 percent increase.

In the exchange of agricultural products, not only do the aforestated comparative price relationships occur, but a whole series of price disparity relationships also occur as a result of differences in procurement and marketing areas, procurement and marketing seasons, procurement and marketing links, and quality of agricultural products. Study of various price disparity relationships and the pattern of their change, and using them to set price

parities rationally is also an important ingredient in conscientious application of the laws of value to carry out the CPC's price policies and good performance in price work.

The problem of regional price disparities was discussed in an earlier section and will not be taken up here again.

A. Seasonal Price Disparities

Seasonal price disparities for an agricultural product reflect the difference in price of the same agricultural product at the same place at a different season. Seasonality of agricultural products and regular availability of agricultural products for consumption are the basic reasons giving rise to seasonal price disparities for agricultural products. There are busy and slack seasons for agricultural products in markets. In order to assure a balanced supply of certain agricultural products throughout the year, it is necessary to store and care for them. This requires payment of certain expenses, and a certain amount of commodities will also be lost. Seasonal price disparities result from the defraying of these expenses. Yet another reason for seasonal price disparities lies in different costs of producing the same agricultural product in different seasons, such as the growing of vegetables in plastic sheds during winter, which makes production costs much higher than during spring and summer. In order to help development of production and satisfy the yearround needs of consumers, seasonal price disparities must be planned on the basis of different seasonal costs.

In old China, prices of grain and other agricultural products alternately rose and fell in spring and fall occasioning great calamity for the impoverished peasants. During the fall, peasants sold most of their grain cheaply to capitalists, repaid their debts and paid miscellaneous exactions and taxes. Then during spring, when they ran out of fall grain before the new crop was ready for harvesting, they had no choice but to buy imported grain at high prices, suffering the cruelest exploitation.

Following liberation, the state eradicated inequitable parts of seasonal price disparities for agricultural products and kept the equitable parts (such as necessary expenses for storage, interest and natural spoilage). Following institution of monopoly procurement and monopoly marketing of grain in 1953, seasonal price disparities for grain were abolished, and in 1954 seasonal price disparities for cotton, peanuts and hogs were also abolished. Following the harvest, the state instituted procurement at uniform fixed prices of these important agricultural products. This not only assured the peasants of a consistent income, but also helped early fulfillment of monopoly procurement and assigned procurement quotas. However, certain seasonal price disparities remained for numerous agricultural products such as melons, fruits, fresh vegetables and fresh fish, and this was entirely necessary. Correct seasonal price disparities favor production and storage of fresh and live agricultural products; they help maintain a balanced supply during different seasons; they help enterprises economic accounting, and they help plan people's standards of living; consequently, it is very necessary to institute seasonal price disparities for these agricultural products. However,

this should not be confused with fluctuating prices. Seasonal differences in prices change with the season, and seasons should have fixed dates. One cannot arbitrarily advance or retard the date for seasonal price differences on the basis of how much of a commodity is available. To do so would be disadvantageous for the development of production.

B. Price Differences For Quality

Price differences for quality of agricultural products means differences in price because of quality for the same kind of agricultural products in the same markets at the same time. The state has formulated procurement list prices for various agricultural products of certain qualities. Quality standards for agricultural products must be formulated on the basis of average quality in normal harvest years on a national scale or for a fairly large region. Medium quality is the standard for state prescribed price levels. Price differences for quality are a percentage of standard price, and are termed the quality-price-difference rate.

Difference in price for agricultural products on the basis of quality is a concrete manifestation of "arriving at price on the basis of quality." It is the use of value to measure superior or inferior quality, prices being set by grade, a premium price for premium quality and an inferior price for inferior quality. Everyone knows that price is the expression of value in monetary terms. Does this use of high or low utility based on high or low quality of goods accord with the Marxist theory of value?

We believe that value remains the economic basis for setting price according to quality. This is because superior or inferior quality of agricultural products is usually very much related to whether, during the production process, farming has been done meticulously, field care has been strengthened, increased fertilization done and diseases and insect pests prevented or controlled, or whether harvesting has been done thoroughly and threshing done meticulously, and whether drying and winnowing have been done properly. Consequently, a rise in agricultural product quality is generally related to expenditure of labor in production, which is to say that price is directly in proportion to labor. However, some agricultural products grow only in a small number of natural conditions, particularly favorable soil. This is frequently the case with citrus fruits and teas. Price differences that result from differences in soil are not determined by commodity value, but rather by the buyer's needs and ability to pay. They can permit producers to gain excess profits.

Once decided, agricultural product quality standards must be maintained for a certain period of time. They cannot be arbitrarily changed because of disasters or crop failures. Formerly, grain quality standards in China were set by each province, and the Ministry of Food set uniform allocation standards. Differences in standards, some of them tending to be strict and others tending to be liberal, adversely affected standards in neighboring areas and the dovetailing of prices. Simultaneous with the 1979 rise in grain procurement prices, six national standards (for paddy, soybeans, corn, wheat flour, etc.) were tried out, and uniformly standard grades were set for

grain procurement, the price for medium quality being the standard. The difference in price for various grades was as follows: 4 percent in northeast China and 3 percent elsewhere; standards were set for miscellaneous expenses and water content, with increase or decrease in prices.

Setting of prices on the basis of quality and the practice of price disparities for quality can play a major role in promoting a rise in agricultural product quality, and also relates to the interests of producers and consumers alike. It must be correctly carried out. The practice of downgrading and lowering prices when a surfeit of products is available should be strictly prohibited, as should upgrading and a rise in prices when products are in short supply. Concurrent concern should be shown for the interests of the country, collectives and individual peasants.

C. Added Price For Excess Procurement

China has three times instituted an added price for excess grain procurement. The first time was in 1960 when an added price bonus of 10 percent was added for all grain sold to the state by a production team above and beyond a certain average per capita amount. In 1961, the added price bonus was abolished simultaneous with the 25 percent rise in grain procurement prices. The second time was in 1965 when a 12 percent added price bonus was given for excess procurement. At the time of the 17 percent grain procurement price rise of 1966, the existing added price bonus for excess procurement was canceled, but state procurement quotas were retained and "guaranteed not to change for 3 years," with award sales of materials being made for half of the amount sold to the state in excess of procurement quotas, and an added 30 to 50 percent price being paid for the other half. The third time was in 1971 when a 30 percent added price was instituted for procurement above state procurement quotas and "guaranteed not to change for 5 years." In 1979 when the national grain procurement price was raised an average 20 percent, the added price paid for excess procurement was increased to 50 percent. At the same time, a 30 percent added price was instituted for excess cotton procurement. Though each method differed in one way or another, generally speaking added prices for excess procurement was able to play a definite role in encouraging peasants to sell more marketable grain and cotton, to increase their income and to stimulate increased grain and cotton output. Given China's level of agricultural productivity, when encouragement is given to undertake intensive farming and increase yields per unit of area, costs increase. By providing appropriate added price bonuses for amounts in excess of state procurement quotas, the state is able to compensate some of the expenditures. This plays a definite role in encouraging communes and brigades to increase production, sell more and better fulfill their national state grain procurement quotas. In actual practice, however, it also gives rise to numerous problems.

First of all, the burden of the peasants is not equitable. This is because the price of agricultural products includes social deductions. Inequitable prices also reflect inequitable burdens. Practice of this method is particularly favorable for new commodity regions that are able to sell the state agricultural products in excess of quota. The prevailing state procurement base figures were set in 1971 and were originally "guaranteed without

change for 5 years." More than 5 years have passed, but they have not been readjusted promptly as production has changed. Actually, quite a few changes have taken place in the standards of living and the cultivated area of all areas and all communes and production brigades, and the situation in supply of commodity grain has undergone very great changes. However, since a change in base figures would have a wide bearing, and since the task is a difficult one, no equitable readjustments have been made for a long time. As a result, new production areas earn a great deal because their base figures are low, while old production areas (mostly old commodity grain and cotton bases) with high base figures get little money from added prices. Joys and sorrows are not equally shared. In 1979, provinces in which excess procurement reached more than 50 percent of state procurement quotas numbered five. Added price income equivalent to the monopoly procurement price average rose by more than 25 percent and reached as much as 60 percent in individual provinces, which was equal to a 30 percent increase. In eight provinces and municipalities, the ratio from excess procurement was lower than 30 percent, and added price income equivalent to the monopoly procurement price average rose by less than 15 percent. Though the average amount of commodity grain per capita that was supplied in some of them was more than the national average, they still did not receive an added price. In 1979 and in 1981, downward readjustments were made with no upward readjustments, and the uneven sharing of joys and sorrows increased.

Second, the rationalization of the structure of agriculture is adversely affected. Since added price money is figured on the basis of overall state procurement amounts for individual production teams and their mixed average value, in order to get more added price money, production teams frequently concentrate on the growing of grains that produces high yields and that increase yields rapidly such as paddy, wheat and corn, which squeeze out the growing of soybeans, millet and miscellaneous grains that have low yields per unit of area and that increase yields slowly. In addition, the added price for excess procurement is an across-the-board 50 percent no matter the kind of grain. This also impels production teams to concentrate on the selling of corn and tubers that produce high yields that they do not want to eat themselves, selling less fine grains and varieties in great demand. This intensifies the national conflict between supply and demand for varieties.

Third, it contributes to market price rises. An added 50 percent price for grain in excess of procurement quotas actually causes the excess procurement price for various kinds of grain to become a fixed price, and becomes the standard for price ratios among agricultural products. This stimulates a rise in the comparative price for other agricultural products. At the same time, a rise in the procurement price of agricultural products (including the added price for excess procurement and negotiated prices) inevitably ramifies into a rise in the manufacturing cost of industrial manufactures that use agricultural products as raw materials. Prices of some products that are not controlled by state plan prices rise of their own accord, causing market prices to fluctuate.

Fourth, it abets large-scale purchasing and large-scale marketing, a roundabout and backward flow, and duplicatory buying and selling, and it creates a

waste of financial and material resources in the circulation territory. Because of the inversion of grain procurement and market prices, the excess procurement price is 50 percent higher than the procurement list price, and 80 percent higher than the market price. For grain that is resold to rural villages, depending on different circumstances, such as whether the price is the original market price or the procurement and market contract price, or whether peasants sold it first and bought it later or bought it first and sold it later, difference in price earnings of 5 or 6, or even more than 10 yuan per 100 jin of grain can be easily made. Consequently, it further fosters the emergence of abnormal situations in grain procurement and marketing in some areas such as the following: Some brigades first sell grain in excess of procurement quotas and then want the state to resell them grain; a brigade does not fulfill its assigned procurement base figures, but it concentrates on brigades that have fulfilled their base figures to sell excess procurement grain; false reporting of a grain-short situation and then offering grain it obtained at a uniform price as well as relief grain for sale to the state as excess procurement grain; grain-short brigades increase production and sell excess grain, but are unwilling to support fixed marketing quotas; they sell grain at a high price as excess procurement grain with one hand, while buying low priced grain at fixed market prices with the other; selling of award sale grain as excess procurement grain; award sale grain and relief grain become a subsidy outside the price system for procurement of farm products; and grain coupons are transformed from unnegotiable certificates to negotiable certificates. As a result of the existence of the foregoing circumstances, circuitous movement and inversion, and duplicatory buying and selling occurs in the areas of grain circulation. This creates large-scale procurement and marketing of rural grain, and a waste of society's financial and material resources.

Fifth, it upsets the balance between financial receipts and expenditures. In 1979, the added price for excess procurement grain amounted to 39.18 percent of the total amount spent for assigned procurement, and obviously this increased official financial expenditures. As grain output increases, the state will steadily increase payments of added price money, and the greater the increase in grain output, the heavier the state's financial burdens. This is to say that the more the economy expands, the greater the hardship on state finances. At first glance, this seems to be a strange and illogical phenomenon, but this is truly the way matters stand when added prices are paid for excess procurement.

There are numerous abuses in payment of added prices for excess procurement. It seems that solution to this problem must be founded on a common understanding, formulation of across-the-board plans, and genuinely effective action.

First of all, there must be a unified recognition as to whether agricultural product procurement prices are still overly low. The country's straitened circumstances must be made fully known to the peasants and the peasants made aware that since the Third Plenum of the 11th CPC Central Committee the country has done everything in its power to use prices for the benefit of the peasants, and that the country lacks the strength to raise agricultural procurement prices in the near future. Therefore, for the present the peasants must rely on scientific farming to improve yields, lower costs and increase earnings. State prescribed monopoly procurement quotas must be fulfilled

at the stipulated quantity and quality. New monopoly procurement and assigned procurement base figures must be formulated for new production areas. This is a contribution that the peasants should make to the country, and one that is in accord with the peasant's basic interests.

Second, there must be a clear understanding among cadres that agricultural product monopoly procurement and assigned procurement are among the major methods whereby the state uses the circulation area to lead agriculture in a planned way, and that it cannot be abolished. Current inequities in monopoly procurement and assigned procurement quotas are to be readjusted step by step through investigation and study. But only decreases and no increases will not do; overall monopoly procurement base figures may be reduced no further. Actions that arbitrarily reduce base figures are to be corrected. Exemption from agricultural taxes and monopoly procurement quotas of newly developed producing areas for the first several years is necessary in order to encourage development of new cash crop and grain crop areas. However, after the time is up, state purchase quotas must be set. This must be made clear through legislation.

Third, abuses that grow out of added price methods used in the procurement of agricultural products are virtually the same in China and abroad. The USSR has also adopted the use of added prices for excess procurement, and the problems that have cropped up there are basically the same as in China. Thus, from a long-range point of view, this double-track price policy should be abolished. However, in view of the need to maintain peasant benefits, this problem can be solved only by raising the price ratio so that it approaches the added price. Thus, this can be done only when the country has surplus financial resources. Putting this matter on a sound foundation requires formulation of a fairly long-range plan. Were the country able to institute a zonal price-setting system, it could consider abolition of added prices simultaneous with a rise in agricultural procurement prices in economic zones in which production conditions are poor. In this way, it could abolish added prices step by step over the years in each and every price zone. However, in areas where inequitable added prices have not been approved, they should be abolished at once.

D. Negotiated Prices

Negotiated prices are among the methods of state agricultural product procurement that are used mostly for Category III commodities to which neither monopoly procurement nor assigned procurement apply. Category I and Category II commodities may also be purchased at negotiated prices, subject to approval by the authorities concerned, following fulfillment of monopoly procurement and assigned procurement quotas. By negotiated prices is meant the setting of a procurement price through discussion by both parties concerned on the basis of the kind of product, quantity and quality. Since the price is arrived at through discussion, it may have a certain amount of flexibility, and it may increase or decrease with changes in supply and demand. The range of negotiated prices cannot be too great for goods for which the state plan sets prices. Ordinarily procurement at negotiated prices is done by contract as a means of bringing them under the state plan indirectly.

Procurement of grain crops at negotiated prices began in China during the 1960's hardship period, and they were originally regarded as an emergency measure that would be gradually phased out after the situation changed for the better, and they would not become a permanent channel. Consequently, the negotiated price of grain at that time did not function as a weight for balancing national grain receipts and expenditures. The business policy was what was bought at negotiated prices was to be sold at negotiated prices to preserve capital with a tiny amount of profit, and thus the national burden would not be increased.

Events today have changed from what they were in the 1960's and negotiated price grain has become a part of the balance between grain receipts and expenditures. It is purchased at a high price and provided at parity price. Moreover, in some places, excess procurement quotas that are to remain unchanged for several years have been added to monopoly procurement quotas that are to remain unchanged for several years, with the result that an increasingly large amount of grain is procured at negotiated prices, adding to the country's burdens. As a result, the amount of procurement of grain at negotiated prices must be controlled. With future readjustment of monopoly procurement quotas and consolidation of added prices, the principle of the 1960's should be revived for negotiated price grain procurement.

E. Purchase and Sale Prices

The difference between purchase and sale price is the difference between purchase price and sale price of an agricultural product of the same kind and quality in the same market at the same time. Objective factors producing purchase and sale price differences include payments for storage, transportation, administration and management that commercial enterprises must make in the process of organizing commodity flow. These expenses must be compensated in the sale price of the commodity. In addition, for the sake of their economic accounting and in order to provide the country with accumulations, commercial enterprises must also derive a reasonable profit from deals. A reasonable difference between purchase and sale price can assure a reasonable business profit and can balance market supply and demand. In addition to defraying state expenses in purchase and marketing of agricultural products, profit can accumulate some funds for the country and achieve the goal of correctly handling the interests of the country, collectives and individuals.

The difference between purchase and sale prices of grain holds a particularly important position in purchases and sale price differences for agricultural products. During the period immediately after the founding of the nation, differences between purchase and sale price were strictly controlled in order to wage struggle against private merchants and to move large amounts of grain in and out in a flexible manner. At the county seat and rural village level, the difference was held at 5.6 percent, which was increased to 8 percent in 1953. It was somewhat larger in large and medium cities. After 1957, control was generally effected on the principle of reasonable expenses for normal business dealings to preserve capital plus a tiny profit. However, difference in prices varied in different markets for different goods.

In large and medium cities into which large amounts of grain were shipped at much expense, the difference between purchase and sale price was somewhat larger; for county markets, it was somewhat less. For commodity grain and miscellaneous grains other than wheat or rice, it was somewhat larger; for unprocessed grain, it was somewhat less. Up until the grain price readjustment of 1961, purchase and sale prices were basically changed at the same time, and a fairly reasonable difference maintained between purchase and sale price. In 1961, however, when the grain purchase price was raised, the sale price remained untouched. This resulted in an inequitable situation in which grain-producing peasants ate high priced grain (following the price in the grain procurement price, the price of the grain ration that production teams apportioned to peasants in grain producing areas also had to be figured accordingly), while peasants in cash-crop-growing areas who produced no grain, but ate commodity grain provided by the state, ate low-priced grain. In order to solve this contradiction, we raised the sale price of rural grain in 1963 to bring purchase and sale prices into line with each other. Then, it was the cash-crop-growing areas that ate grain that had been resold by the state, and since peasant earnings there were higher than in grain-growing areas, the peasants did not complain about the rise in grain prices. However, a price inversion problem between city and countryside was created. By this is meant that the price of grain that the state sold to peasants in cash-crop-growing areas was higher than the price of grain sold to urban industrial staff members and workers. In suburban areas having households containing both industrial workers and peasants, the same dining table held grain purchased at two different prices leading to a contradiction between workers and peasants. In order to solve this contradiction, the sale price of grain provided to industrial staff members and workers was raised in 1966 to bring sale prices between city and countryside into line. After city and country sale prices were evened up, the state continued to subsidize transportation and management costs. In addition, it instituted "grain price subsidies" for staff members and workers so as not to hurt staff member and worker standards of living. In 1966, grain purchase and sale prices were raised simultaneously throughout the country, purchase and sale price being kept the same (with a slight charge being retained for processed grain sold to large and medium cities).

In 1979, after procurement prices for agricultural products were increased tremendously with no change in sale prices, once again an inversion between procurement and sale prices for agricultural products occurred. The difference in both the procurement and sale price inversion and administration and management expenses, was subsidized from public funds. Statistics from departments concerned show that during 1981 alone, state subsidization of grain, cotton, and edible oil from public funds, plus existing subsidies totaled 16.26 billion yuan (not including foreign trade deficits resulting from the importation of grain. The same applies hereinafter.) The subsidization of grain and oil totaled 12.7 billion yuan. Roughly, grain departments lost 9 cents for every jin of grain sold and 70 to 80 cents for every jin of oil sold. Figures in terms of city and town population, this amounted to a state subsidy of more than 50 yuan per capita per year for grain and oil.

Thanks to state financial subsidies, sale prices of grain and edible oil as well as of cotton wadding, cotton yarn, cotton cloth and cotton textiles

remained stable. Living expenses of urban and rural people did not increase as a result of price rises for grain, cotton and oil. This demonstrated the concern of the party and government for the people's standard of living. This particularly guaranteed the standard of living of families having a small income but many people to support, and played a beneficial role in the maintenance of stability and unity.

Some people believe price subsidies to be unfair and not in keeping with the requirements of the law of value. They advocate the abolition of price subsidies, a rise in sale prices, evening out of procurement and sale prices, and a corresponding increase in wages with the billions of yuan paid in price subsidies put into wages. Certainly this has its advantages in that it would no longer be necessary to increase government subsidies as a result of annual increases in agricultural product yields and amounts purchased by the state. (It has been estimated that if current prices do not change, the subsidy will annually increase by between 2 and 3 billion yuan.) However, a look at experiences in 1979 when prices were raised on eight nonstaple foods with a 5 yuan per month subsidy simultaneously provided to staff members and workers shows two major problems might occur. First, a chain reaction of price rises might be set off resulting in price rises of a scope and size far in excess of those set originally. The results would be unfavorable for workers and peasants alike. Second, price changes impact differently on people at various levels and on households having different numbers of people to support. Some gain, others lose, and for still others increased income and increased expenditures balance out. However, staff members and workers who lose out are frequently needy households with many people to support. As a result, the contractions that ensue cannot be easily solved. If they are not properly handled, stability and unity can be damaged. Actually price subsidies are nothing more than a form of redistribution of national income. Many Western capitalist nations including the United States and Japan, as well as the USSR and numerous countries in Eastern Europe use price subsidies. We believe that until such time as production is substantially developed, until the national economy is proportionally well-adjusted, and until the three great balances have been attained, simplistic methods like incorporating subsidies into wages are inappropriate. Instead, consideration should be given to direct subsidies to operating units. Contractions would be fairly few in this way. Of course, there are definite limits to price subsidies too. They should be properly controlled and not enlarged further. If they are, the public coffers will be unable to carry the load. In recent years, some places have arbitrarily lowered state procurement base figures and increased the percentage of excess procurement at added prices without regard for the country's financial resources. This has increased the extent of the inversion between procurement and sales, which has gone a little too far. This should be watched and prevented in the future. In summary, price inversions between procurement and market prices for agricultural products and financial subsidies should be linked to the national economy as a whole and handled with an overall, balanced concept. There can be no lopsided sole emphasis on the use of the laws of value, isolated price increases, evening out of procurement and sale prices, or abolition of subsidies, otherwise, this could lead to economic tumult and impair stability and unity. The lessons of Poland's experience serve as a warning in this regard.

5. Reducing Production Costs of Agricultural Products

The cost of producing agricultural products is not only an overall indicator for judging the state of production management in agricultural enterprises and an important basis for formulating technical policies for agriculture and a rational pattern of agricultural production, but is also a foundation for the setting of agricultural product prices by the state. When formulating agricultural product prices, the state must consider the cost of agricultural products, and set an equitable ratio among various agricultural products. One might say that agricultural product production costs decide agricultural production prices to a very large extent, while agricultural product prices are, in turn, the basis for the prices of all goods. Therefore, steady lowering of agricultural product production costs is crucial to carrying out a stable price policy and is an objective requirement of basic socialist economic laws. This is because steady expansion of the scale of agricultural production and steady improvement in commune member standards of living require increases in accumulations and consumption funds, and reduction of product costs is a major way to increase funds, and to increase accumulations and the level of consumption. The question is whether it is possible to reduce agricultural product production costs.

There has been an on-going controversy as to whether the historical trend of agricultural production costs has been rising or falling. The so-called "law of gradual decrease in soil fertility," which is a theory of the bourgeoisie, holds that the steady deterioration of soil fertility is a law. Marxism uses the concept of development and the achievements of modern science and technology as a basis for postulating that, "so long as it is handled properly, the soil can be steadily improved. The merit of the soil is that each continuous investment in it can bring benefits without causing any loss of prior investment."⁷ "With application of capital, labor and science the soil's bounty can be endlessly increased."⁸ The achievements of American agriculture during the 20th century demonstrate the correctness of the foregoing Marxist thesis. As a result of progress in agricultural science and complete mechanization, the labor productivity rate for America's farm and livestock products has risen very quickly. Between 1910 and 1914, it took an average of 39 man-hours per 100 jin of wheat produced. By 1970 and 1971, it took only 0.43 man-hours, a several-fold rise in the labor productivity rate. During the same period, 5.31 man-hours per 100 kilograms of corn fell to 0.28 man-hours, an 18-fold rise in the labor productivity rate. The number of man-hours per 100 pounds of cow's milk also fell from 3.8 to 0.7, a 9-fold increase in the labor productivity rate.

A look at cost changes in American agriculture during the past 20 to 30 years shows no rise in costs as a percentage of income from sales. For example, in 1960 American farm (including crop and livestock farms) income from sales was \$34.2 billion, and expenditures totaled \$24.1 billion. In 1970, the corresponding figures were \$50.5 billion and \$38.3 billion, and in

7 "Collected Works of Marx & Engels," Vol 25, p 880.

8 Ibid, Vol 1, p 616.

1975 they were \$89.6 billion and \$63.9 billion. During these three representative years, the ratio of costs to sales income was 73.46, 75.84, and 71.32 percent, respectively. The ratio of expenditures for materials to gross expenditures during these 3 representative years was 87.77, 88.8, and 89.82 percent respectively, and there were no rises or increases resulting from the organic structure.

Representative sampling data from all of China's provinces, municipalities, and regions shows inconsistent ups and downs in changes in agricultural costs during the past 30 years. They rose for a long period, but they have begun to decline again during the past 2 years. (See Table 5).

Table 5. Changes in Agricultural Costs

Year	Paddy (per 100 jin)	Wheat (/ 100 jin)	Rapeseed (/100 jin)	Cotton (/ 100 jin)
1952	3.19	4.37		46.85
1957	4.78	8.32	13.51	57.75
1962	6.97	11.27	30.21	72.26
1965	9.68	12.36	27.83	62.44
1975	9.34	13.68	35.40	92.38
1976	9.82	14.02	30.41	108.10
1977	9.40	17.01	38.52	103.95
1978	9.51	13.95	29.89	100.99
1979	8.49	13.75	28.50	95.54

Table 5 shows a rise in cost for four farm crops, but the rise occurred at two different times. The first time was right after the "Great Leap Forward," and the second time was during the 10 years of turmoil. They have begun to fall in recent years. In 1979 the cost of producing a dan of paddy rice was 12.3 percent less than in 1965. Though wheat production costs rose up until 1977, they declined greatly after 1978. Production costs for cotton and rapeseed also began to decline in 1978 and 1979, respectively.

Representative sampling data from every province, municipality, and region also show that most increases in agricultural cost rates are due first to seed and fertilizer and second to labor.

A. Seeds and fertilizer: Representative sampling data show an average expenditure for seeds of 1.55 yuan per mu of paddy in 1961. In 1975, this became 3.47 yuan, and rose to 4.07 yuan in 1976. In 1961, expenditures for fertilizer averaged 3.96 yuan per mu. In 1975, they were 10.91 yuan; and in 1976, they climbed to 13.71 yuan, including 6.85 yuan for chemical fertilizer. Chemical fertilizer use has increased particularly fast in recent years. In 1975, only 31.19 jin per mu was used, but by 1978 the figure had increased to 70.4 jin per mu.

B. Labor: Despite decrease in agricultural labor as a percentage of total labor since founding of the nation, (83.5 percent in 1952 and 73.8 percent in

1979), the absolute figure has increased substantially as a result of population increase (from 173 million in 1952 to 299 million in 1979, a 72.8 percent rise). The cultivated land area has not increased, however, so the relative surplus in the agricultural labor force plus the improper changing of the farming system in many places from a one-crop system to a two- or three-crop system, and more people going to work but not doing any more work, the number of workers per mu has increased markedly. A national representative sampling showed an average 25.4 workdays per mu of paddy. By 1978, this figure had increased to 38.6 workdays, a 53.4 percent increase.

Probing analysis of this phenomenon shows the rise in costs to have been largely brought about by abnormal factors and to have been related to the effects of "leftism."

Ever since the late 1950's, as a result of the effects of "leftist" ideology, changes in agricultural production relationships have outstripped development of productivity. One-sided emphasis on "firstly, big and secondly, publicly owned," and the practice of "insistent transition," plus blind guidance and high state purchase quotas dampened peasant enthusiasm. Lack of requisite self-determination for production teams; the state pays money and the peasants farm; crop patterns and planting plans that were frequently at variance with natural laws and divorced from production conditions produced a situation of one-sided pursuit of quantity in grain production despite the cost in labor. The rise in seed costs was attributable to blind guidance and ill-advised promotion of both two crops of paddy and close planting of wheat. This meant planting many seeds for little increase in income. Greater use of chemical fertilizer can increase yields, but we have many small chemical fertilizer plants producing poor-quality fertilizer. In addition, no chemical analysis of the soil was done and nitrogenous fertilizer was used invariably, with the result that the more used, the fewer the results. It also made the soil leathery, and the goal of increased yields for increased earnings was not achieved. Because peasants formerly had no self-determination in farming, production teams being able to do only whatever higher authority delegated to them, rarely were costs and benefits considered. The nub of the rise in costs without a corresponding increase in output lay right here.

During the 10 years of turmoil, the country relaxed control over the population, but under influence of "leftist" ideology, one-sided emphasis was placed on taking grain as the key link; economic diversification, as well as household sideline occupations, were treated as the tails of capitalism to be cut off. The work force had nowhere to go except into grain farming. At the same time, the multiple cropping index was arbitrarily increased, but results were scant, management chaotic, use of labor knew no limits and enforced idleness was serious. This created a great waste of the labor force. This was the main reason for an increase in expenditure of live labor. A survey conducted at Yaohe Commune in Taoyuan showed 15.9 percent of the labor used in agriculture as being in enforced idleness because of poor organization of agricultural production.

With the purging of "leftist" ideology, correction of blind guidance and institution of various rural policies since 1979, production teams have begun

to have self-determination. Various forms of responsibility systems have spread, cash crops and economic diversification have developed and labor efficiency has risen. There are many outlets for the work force, and the lowering of costs in 1979 were exhibited mostly in savings of live labor. A national representative sampling showed use of labor in 1978 to have been 6.84 standard workdays per 100 jin of paddy produced. This fell to 5.28 standard workdays in 1979, a 22.8 percent reduction from the previous year. During the same period, the number of standard workdays for wheat fell from 9.78 to 7.94, an 18.8 percent reduction. For rapeseed, the decline was from 22.42 to 19.55 standard workdays; and for cotton, the decline was from 78.67 to 71.2 standard workdays, a 9.5 percent decrease.

The 1979 decline in costs shows that so long as agricultural policies are right and blind guidance corrected, further decline in agricultural costs is possible.

The fundamental way in which to lower agricultural product costs is the effort to raise the level of scientific farming and of administration and management, and to raise the labor productivity rate. The past labor productivity rate has not been high, and administration and management, in particular, have not been good; there has been great waste and high costs. With a good job of production responsibility systems, scientific farming, and strengthening of economic accounting, potential for lowering costs is very great. Formerly, for example, scientific forecasting and monitoring of crop diseases and insect pests has been very poor, and frequently once an outbreak of disease or insect pests occurred, all-out mobilization ensued with spraying of pesticides on every plot. This increased expenditures for insecticides. If, as was mentioned earlier, soil nutrients are not studied when applying chemical fertilizer and general methods are not suited to local situations, fertilizer being applied with abandon, full benefits cannot be realized from the fertilizer. Or if natural economic areas not suited to the growing of grain crops are converted to grain fields without regard for facts, this will increase costs and adversely affect income from economic diversification. If drylands are converted to wetlands without regard for costs in an ill-advised expansion of the wetland area, investment costs will become greater. If concrete conditions such as climate are disregarded in arbitrary expansion of the multiple cropping index, manpower, material and financial resources will be wasted. If certain areas overly promote a three-crop system, fixed costs will rise dramatically. A survey conducted at Shuguang Production Brigade in Hongsheng Commune, Wuxi County showed unnecessary losses on 10 items including chemical fertilizer, pesticides, seeds, farmyard manure, hydropower expenses and machinery expenses amounted to more than 10 yuan per mu. Once 10 suburban Shanghai agricultural cost accounting pilot project teams perfected management and improved practical results from accounting, costs of materials declined 13.4 percent in 1980 versus 1979, and the amount of labor used fell 15 percent.

Rising agricultural labor productivity rates indicate a decline in the expenditure of living labor and costs for agricultural products per unit of area. Moreover, even when absolute figures on costs per mu increase, when yields per unit of area rise, costs per unit of area may decline relatively. Consequently, by working along both lines with these two methods, the goal of lowering agricultural costs may be achieved.

Rising agricultural labor productivity rates will also require solution to the problem of an outlet for surplus rural work forces. International experience shows that the ratio of a country's agricultural labor force to the total labor force has to fall to 20 percent before the disparity in income between industry and agriculture can be eradicated. Today, China's agricultural work force amounts to more than 70 percent of society's total work force, and cultivated land averages fewer than 5 mu per capita of the agricultural work force. This is approximately one-fifth the 25.9 mu world average. Today there is a surfeit of rural labor, and as the modernization of agriculture is gradually realized, the rural labor surplus will increase even more. An increase in the labor productivity rate requires that three people do the work of five in order to lower the expenditure of live labor, thereby lowering costs. However, when there is a surplus work force, there is no choice but for five people to do the work of three, and this increases expenditure of live labor and raises costs. Consequently, some places have come to limit the number of people going out to work in the fields. But limitations on the number of people going to work is not a fundamental method. Fundamental methods are: (1) Finding outlets for the surplus rural work force, and (2) controlling rural population increase.

The outlets may be found in all-round development of farming, with the emphasis on grain, and development of economic diversification through farming, forestry, animal husbandry, sideline occupations and fisheries, support for the commune members private plot economy and other household sideline occupations, plus development of commune-operated industries for all-round operation of farming, industry and business. In this regard, let us take a look at how four production brigades in the Dongting agricultural mechanization pilot project at Wuxi deployed work forces, and gain some inspiration from them. In 1978, the agricultural work force in these four brigades amounted to 60 percent of the total work force. By 1979, after having imported complete wetlands machinery from Japan, it dropped to 45 percent, and a decline to 31 percent was anticipated for 1980. Work forces employed in commune and brigade industries rose from 24 percent of the total work force in 1978 to 35 percent in 1979, and rose further to 38 percent in 1980. The work force employed in sideline occupations and other tasks rose from 14 percent of the total work force in 1978 to 20 percent in 1979, and to 31 percent in 1980. They found from experience that development of economic diversification and marching ahead into production in depth and in breadth in order to increase the labor productivity rate is both the starting point and the end result. In addition to hastening the development of agriculture and of commune- and brigade-operated industries, special attention should be given development of sideline occupation production. This vast field is a broad arena for holding the work force. In addition, depending on economic development needs, numerous trades that provide services for daily life may be developed. The structure of the labor force by 1990 as envisioned in Wuxi on the basis of the modernization of agriculture and needs for development of the national economy is as follows: 30 percent agriculture, 20 percent commune-operated industry, 40 percent sideline occupations and brigade-operated industry, and 10 percent other service trades.

Over the long term, control of population increase holds important strategic significance for rise in the agricultural productivity rate.

China is a country with a large population relative to cultivated land. The development of the country's agriculture has not been slow by any means in world terms; however, this development has been largely offset by a dramatic increase in population. Speed of development of China's agriculture might have been somewhat faster; however, it was limited to a considerable extent by large decline in the amount of cultivated land.

Statistics show the following:

In 1949, the country's population totaled 541.67 million (statistics for Taiwan Province not included), and in 1979 it was 970.92 million. Within 30 year's time, the country's population had increased by 429.5 million people, a rise of 79.25 percent or a 2.64 percent average annual increase.

In 1949, the country had a 1,468,220,000 mu cultivated land area, an average of 2.71 mu per capita or 3.28 mu per capita of agricultural population. During the past 30 years, some wasteland was brought under cultivation, while at the same time some farmland was taken over for industry for a net increase of 24.25 million mu. By 1979, the cultivated land area stood at 1,492,470,000 mu; however as compared with 1957, the year of maximum cultivated land since liberation, it had declined by 184.98 million mu. In 1979, cultivated land averaged 1.83 mu per capita of agricultural population.

In 1952, cultivated land averaged 9.35 mu per capita of agricultural work force. By 1979, the amount had dropped to 4.99 mu, a 4.36 mu or 46.63 percent drop. Though the cultivated land area declined by almost one-half per capita of agricultural population, the average amount of grain produced rose from 1,893 jin in 1952 to 2,219 jin in 1979 for a 326 jin or 17.72 percent increase. This resulted largely from an increase in the soil productivity rate, i.e., yields per mu. Figured in terms of area sown, grain yields for the same period increased from 176 jin to 371 jin, a 195 jin or 1.1-fold increase. Figured in terms of cultivated land area, yields increased from 202.5 jin per mu to 445.1 jin per mu, a 242.6 jin or 1.2-fold increase.

China's grain yields rose from 171 jin to 492 jin per mu between 1949 and 1976 in a 187.7 percent increase. In comparison with foreign countries, this yield was greater than yields for the same period in the United States (417 jin), USSR (238 jin), France (452 jin), Yugoslavia (415 jin), and Romania (358 jin), and was more than double the world 245 jin per mu average. This speed of increase was greater than the speed of increase for the same period in the United States (91.3 percent), the USSR (124.5 percent), Japan (66.7 percent), West Germany (38.8 percent), the United Kingdom (40 percent), France (108.3 percent) and Yugoslavia (142.7 percent), and was more than double the 59 percent world average. It should be said in this regard that our achievements have been very great.

However, comparison of China's agricultural productivity rate with that of foreign countries shows a very great discrepancy. In 1978, China's grain production averaged 2,080 jin per capita of agricultural population versus a 4,586 world average, and a 2,505 jin minimum, or 54.64 percent lower. It was lower than in Japan (4,932 jin), Romania (6,763 jin), and Yugoslavia (7,183).

It was only 0.74 percent that of the United States (281,965 jin), 1.36 percent of Canada (153,427 jin), 1.52 percent of Australia (137,133 jin), 2.54 percent of Denmark (81,937 jin), 3.10 percent of the United Kingdom (67,142 jin), 4.79 percent of France (43,416 jin), 5.22 percent of West Germany (39,829 jin), 8.32 percent of Hungary in 1977 (25,000 jin), and 9.71 percent of the USSR (21,428 jin). The main reason was that in these countries the ratio of the agricultural labor force to the labor force of the whole society was much lower than in China. Though the ratio of the agricultural labor force to the total labor force in China had fallen from the 83.5 percent of 1952 to 73.76 percent in 1979, it was still 59.5 percent higher than the 46.2 percent world average (of 1978). In the aforementioned several countries, the ratio was mostly below 10 percent (the United Kingdom, 2.2 percent; the United States, 2.4 percent; West Germany, 4.6 percent, Canada, 5.6 percent, Australia, 6.3 percent; Denmark, 7.7 percent, and France 9.5 percent). In a few countries, it was below 20 percent (Japan, 12.5 percent; Hungary 17.3 percent, and the USSR, 18.1 percent). Only in Yugoslavia (39.8 percent) and in Romania (49 percent) was it above 20 percent, and still much lower than in China. It must be also realized that despite the decline in the ratio of China's agricultural work force to its total social work force, the absolute figures are still increasing. In 1979, the agricultural work force was 126.17 million more than it had been in 1952, a 72.86 percent growth rate. In the final analysis, this was related to population growth. During the same period when China's population increased 68.88 percent, the rural population increased 67.39 percent. Consequently, it is necessary to institute planned births to control population growth and to develop urban industry to absorb the surplus rural work force. It is necessary, at the same time, to reclaim wastelands and to call a halt to arbitrary taking over of cultivated land in order to set the stage for a rise in the agricultural labor productivity rate.

To summarize the foregoing, the way to lower agricultural product costs is to rely on policies and science to do the following:

- (1) raise the soil productivity rate and increase yields per mu to lower costs per unit of area;
- (2) strive for economic results and practice thrift to lower the consumption of materialized labor in costs;
- (3) raise the labor productivity rate and increase labor output per day to low expenditure of live labor in costs.

Under most circumstances, raising the soil productivity rate and raising the labor productivity rate are mutually supporting. When the same amount of labor is invested in the same land, the higher the yields per mu, the higher the labor productivity rate. However, contradictions may crop up sometimes as, for example, the following: A rise in the soil productivity rate requires intensive farming and greater investment of labor to farm intensively. A rise in the labor productivity rate requires expansion of the sown area and the practice of nonintensive farming using machines and less human labor. Just which of the two is more important will depend on the ratio between people and land. Where land is scarce relative to population, a rise in the soil productivity rate is more important, as in Japan. In places where land

is plentiful relative to population, a rise in the labor production rate is more important, as in the United States and Canada. In view of China's realities, we believe that for the country as a whole, a combination of the two is necessary at the present stage. The linking of modern scientific and technical research results to the country's fine tradition of intensive farming could both raise the soil productivity rate and the labor productivity rate. Except for the northeast region where the land is vast and population thin, the rest of the country is not suitable for across-the-board mechanization. Instead greater efforts should be made in breeding and promoting superior varieties, in improving the farming system, in straightening out crop patterns, in changing the composition of chemical fertilizer use, in sensible fertilization, in production of highly effective pesticides of low residual toxicity, and in the selection and promotion of suitable farm machines.

Chapter 3. Industrial Product Pricing Problems

1. Common Problems With Industrial Product Pricing

Industry plays a leading role in development of the national economy. It creates the technical wherewithal for all sectors of the national economy, and provides the raw materials, fuel, power and other industrial goods needed in production. It is the material and technical foundation for the modernization of agriculture, science and technology, national defense and itself. It is also one of the major sources of the means of consumption needed for the people's material and cultural lives.

In all sectors of China's industry, enterprises owned by the whole people hold an overwhelming dominance. Under centralized leadership of state plans, they are relatively independent in an administrative and managerial sense, and are mutually treated as producers of commodities. The means of production and means of consumption that enterprises manufacture are all commodities; exchange at equal price must be practiced in the circulation realm so that the costs of goods are compensated and a reasonable profit earned. This differs from capitalism in that the prices of most of China's industrial products are not spontaneously formed, but rather are set consciously by the state on the basis of objective economic laws. This consciousness in the application of objective economic laws reflects in a concentrated way the country's industrial goods pricing policies. The practice of correct industrial product pricing policies plays a very great role in promoting industrial production, in expanding the circulation of goods, in distributing earnings equitably, in guiding the masses' consumption and in guaranteeing the people's needs.

Understanding objective economic laws is a recurring process, and a deepening process. Our understanding of the socialist laws of value also goes through such a process. However, in an overall sense, our formulation of industrial product price policies advances in the direction of correct application of various economic laws. This is manifested in the following: We have carried out a policy of stable prices. Comparison shows the retail price indices of 1979 and 1952 to have been virtually identical. In order to stimulate production, regulate supply and demand, guide consumption, and guarantee the people's basic needs in a situation of basic overall stability, upward and downward readjustments have been made in the prices of certain industrial consumer goods. As far as the means of production are concerned, we have several times lowered prices for the means of agricultural production so as to help expand sales markets and advance agricultural production. Prices were raised several times for mineral products on which profits are low, particularly coal, thereby helping to change a widespread loss situation resulting from overly low prices. The state has also made some readjustments in inequities among price ratios for the means of production so as to balance out the distribution of earnings among producers through use of national economic plans. In recent years, the country has followed the principles of taking the planned economy as the key link, with market regulation being supplementary, in reform of its economic system. It has also explored to good advantage how to handle the relationship between planning and laissez-faire in the price field for the means of production and the means of consumption.

However, as a result of the effects of several "leftist" errors and shortcomings in work, numerous problems requiring solution continue to exist in the pricing of industrial manufactures. These problems include both price ratios and fixed price problems, problems in setting prices for new products, problems in equitably arranging prices of the same kinds of products from old industrial bases and new industrial bases.

A. Price Ratios and Fixed Price

(1) Inequitable price ratios. Inequitable price ratios in the field of the means of production are manifested conspicuously in the timber and mining industries where the price of primary-level products from sectors such as timbering are overly low while the price of processed goods from the sectors such as the electromechanical and chemical industries are overly high. For example when the price of iron ore and of highway cobblestone was about the same, numerous mines operated at a loss. When the price of pig iron was overly low, 2 tons of iron ore plus the coke needed to produce a ton of pig iron meant that price would just offset cost, and by the time taxes were paid, a loss would result (the situation is somewhat better since readjustment of prices). After pig iron has been smelted into steel ingots, the price rises again, and taxes paid plus profit amounts to about 15 percent of the sale price. When the ingots are rolled into steel products, the price rises higher, and the accumulation rate on ordinary carbon steel products reaches 44 percent; for sheet steel, the accumulation rate reaches 68 percent. Once steel is processed into machinery, the accumulation rate is also very appreciable. The accumulation rate on diesel engines produced by some plants reaches more than 30 percent, and the accumulation rate on machine tools reaches more than 40 percent.

In addition to the inequitable structure between primary-level products and processed products, an inequitable situation also exists with price ratios. Problems with consumer goods are somewhat fewer than for the means of production; yet, there are numerous inequities. For example, prices of chemical fiber products are high and profits large, while prices of cotton knit goods are low and profits small. As another example, prices for first-quality merchandise should be higher and profits somewhat larger, while prices for popular goods of dependable quality are lower and profits somewhat smaller. However, because of the large volume of popular goods sold, a flow occurs and the labor productivity rate rises very fast, giving rise to a contrary situation. The profit on woolen goods should be higher than on cotton cloth, but instead there is currently no profit at all from woolen goods. Stretch socks are more expensive than long silk stockings. Such inequities in price ratios are unfavorable for planned organization of production, and are unfavorable for guiding consumption. There are historical reasons and conceptual problems that account for these inequitable price ratios, and many of them are also the result of work mistakes.

(2) A rise in costs exerts pressure on prices. In state-owned industrial enterprises, costs per 100 yuan of sales income rose approximately 7 percent between 1965 and 1979. A look at specific products shows a rise in price for 22 major products with the exception of petroleum and products made from

petroleum the cost of which declined. The maximum rise was 70 percent for timber, with most of the products rising in price between 20 and 30 percent. The minimum price rise was nearly 10 percent for newsprint. Fundamentally speaking, the rise in costs was due to errors in economic work overall, and the trend of changes in costs during the past 32 years demonstrates the problem. For example, during the recovery period and during the period of the First 5-year Plan, costs declined. During the 3-year period of hardships following the "Great Leap Forward," costs rose. Following readjustments up until 1966, costs again declined. During the 10 years of turmoil, costs rose again. In addition, price rises for raw and processed materials, particularly raw materials derived from farming and animal husbandry, such as pig skin, goat hair and wool, cotton and sugarbeets, as well as inadequate production quotas occasioned by proportional imbalances, decline in the larger productivity rate, too much social apportionment, etc. were all objective reasons for cost rises. However, the thing that should arouse extremely grave attention is problems in work. As a result of criticism about how to calculate the economic balance sheet, criticism of placing profit in command, and bringing the economic accounting system into bad repute during the "Great Cultural Revolution," quota management, original records, calculation of quantities and figuring of prices, and the whole foundation for economic accounting were destroyed. In addition, there was laxness in discipline, with numerous businesses pushing costs around and apportioning costs helter-skelter, converting the public into the private and transforming the public interest into private gain, and much graft and waste being covered up as costs and expenses. The former fine tradition of running enterprises thriftily and with hard work waned in some enterprises, and extravagant free spending and waste was not considered shameful, but rather something to be proud of. Furthermore, it was during these years that state management of enterprises' costs was relaxed, and cost reports and tables were overly simplified. Cost plans were not formulated on the basis of precise accountings but developed into formalism; consequently, it became very difficult to get concrete compliance with them in enterprises. All these factors brought about a trend toward a steady rise in costs. With the rise in the costs of goods, enterprises making fairly high profits garnered the profits and income flowing into the treasury declined. Enterprises already having very low profit levels could only readjust prices. With the steady rise in costs, coal firms raised prices in 1979 by 5 yuan per ton. For goods on the borderline of incurring losses, requests for price adjustments could be asked, and this placed pressure on the stability of plan prices.

(3) Incidents of price rises and disguised price rises occurred constantly. Plan prices for the means of production could not rise, but prices could be raised through the use of negotiated prices and cooperative prices. When Category I and Category II goods were permitted to be sold at negotiated prices, the blast of price rises was particularly severe. There could be no rise in national list prices for the means of consumption, but new products and new varieties or styles were not restricted by list prices; businesses could set such prices themselves, and it was in this way that the prices of many consumer goods rose. For example, the style of superior-quality leather shoes, wallets, and belts produced in Shanghai was changed and their prices shot up.

The reasons for price rises and disguised price rises were as follows: First was a rise in the price of raw and processed materials. Second was the lack of balance between purchasing power and amounts of goods that could be supplied. Third was that once the new system for dividing up profits had been instituted, some enterprises did not put their efforts into improving quality and lowering costs, but tried to take the short cut of raising prices. Fourth was backward management or lax discipline in enterprises, or else pursuit of quantity without figuring results, which led to excessive waste of manpower and material resources in consequences of which a rise in prices was required.

These several contradictions became entangled with each other, with the result that manufactured goods price problems became a tough problem in the national economy that had to be resolved but that was highly complicated. Difficulties were as follows:

Failure to readjust prices meant difficulties for production and supply. For example, prices were high and profits large for chemical fiber fabrics, but prices were low and profits small for cotton fabrics. In order to make more profits to divide, enterprises wanted to produce chemical fiber products, and this resulted in overstocking. Prices of household electrical appliances were low and profits small, but prices were high and profits large for electrical equipment used in industry, so enterprises wanted to produce industrial electrical equipment. This caused a shortage of small electric meters. After a rise in the procurement price of goat hair and wool, the cost of making woolen blankets rose, but since sale prices did not change, enterprises did not want to produce them.

When prices were raised, the masses complained. This is because the masses in China today are still not well off; they have gone through some privations and they are especially sensitive to prices. People hoped for stable prices as a matter affecting their real interests; they welcomed a drop in prices, and opposed a rise in prices. Thus, even fair increases in prices would evoke a reaction. One example was the Spring Thunder Brand 12-tube radio produced in Shanghai for which the original factory price had been 119 yuan. Subsequently, detailed calculations discovered actual production costs to be much higher, so in 1980 this brand of radio was considered high-class merchandise and the price raised to more than 140 yuan. This immediately caused a stir in markets. A 1981 rise in the price of cigarettes and spirits made from corn or sorghum also stirred much controversy among cigarette and spirits consumers.

A lowering of prices means hardships for public finances. A lowering of the price of goods hurts profits and income, which hurts withholdings by enterprises. Enterprises want acknowledgement of debts owed them by public finance departments, and local public finance departments want the national treasury to acknowledge debts owed them, for a mutual conflict of interest among parties concerned. In some cases, the treasury has borne the responsibility for losses incurred as a result of central government ministries having decided to lower prices. However, were all the losses incurred from the lowering of prices to become the responsibility of the treasury, considering the present hectic state of revenues and expenditures, the treasury would

not be able to afford the responsibility, nor should it bear responsibility for some. As a result, some products for which prices should be lowered become hung up and their price cannot be lowered.

This damned if one does and damned if one does not situation is not entirely a problem of price management per se. Fundamentally, it is a complication resulting from the 10 years of turmoil, and it is a reflection in prices of the proportional imbalance of the national economy, the descent into chaos of enterprise management, the pending thoroughgoing system reform, and various ills of the national economy. Thus, solution to the problem cannot be found solely in prices. Only with readjustment of proportional relationships in the national economy, institution of balance in public funds, loans and materials, and reform of the financial and economic system by following the principle of taking the planned economy as the key link, with market regulation being supplementary, while simultaneously taking a firm grip on the consolidation of enterprises, calling a halt to the running away, oozing, dripping and leaking of resources can price initiative be regained. In the final analysis, this means pursuit of the four-point policy of readjusting, restructuring, consolidating, and improving to convert the national economy from sickness to normal health after which the economic thermometer that prices are will be able to register a lowering of the fever. Certainly, this is positively not to say that nothing is to be done about price work itself. Prices must be stabilized at their present level and long-range planning done. Study of price parities and policies for all industrial manufactures can set the stage for stability in the midst of readjustment.

B. Problems in Setting Prices of New Products

Among the problems of prices for industrial goods is the problem of setting prices for new products. In order to satisfy society's steadily rising needs for industrial goods, not only must the quantities of industrial goods increase steadily, but their quality must rise steadily as well. A rise in the quality of goods requires full use of scientific and technical achievements as a basis for development of new products for earliest possible series production of large amounts of new products, hastening of the updating and replacement of products, and phasing out of old, out-of-date products. Fair pricing of new products can play a positive role in giving impetus to development of new products and raising the quality of industrial goods.

In the past, our pricing of new products was based on the cost of development of the new products plus a 5 to 10 percent profit as a temporary price. Frequently costs were high, prices were high, and profits were small. Once production became regular, costs declined markedly, yet frequently no decline or little decline in prices occurred. The temporary price became the formal list price. This is an important reason why the price of some products is overly high. For example, large steel products were new products first produced during the late 1950's and early 1960's. When they first came out, costs were high and prices for them were set high. Costs fell later, but prices remained the same. This meant high prices and large profits. Initially chemical fiber fabrics cost 2 yuan per meter, and later on new technology boosted the price to 2.40 to 2.50 yuan per meter. Costs gradually declined subsequently,

but profit norms were set by now and prices did not come down. A similar situation occurred with mercerized cotton sheets. When the Shanghai Silicate Products Plant developed silicate bricks in 1966, the price reached 60 yuan per cubic meter, which was more than double the price for common bricks (25 yuan per cubic meter). Later on, as product technology was gradually perfected, costs fell, but prices remained where they had been.

Price is one of the reasons why products accumulate in inventory. High profits are bad for an enterprise's economic accounting. This is one aspect that must be restructured when prices for new products are set in the future.

Furthermore, both foreign and domestic experience shows that new products may not be priced either too high or too low. For example, if prices are set in terms of old products, producers will not want to develop new products because of increased costs and diminished earnings, leading to a blocking of the application of new techniques and the updating and replacement of products. Consequently, prices must be set just right, and interests of both producers and consumers being taken into consideration. This is the only way in which to help the use of technology and help increase quantity and quality.

The pricing of new products also entails problems in arriving at price on the basis of quality. For example market sales showed that consumers wanted Shanghai branch wristwatches produced by the Shanghai Watch Plant with decorated dials, luminous dials, the inlaid dials. The plant made some calculations that showed that if 1 million of its 4 million wristwatches were made with decorated dials, costs would increase 550,000 yuan, but with no readjustment in factory prices, profits would decline correspondingly. As a result, the plant did not want to make many watches with fancy dials. In 1979, representatives from second-level stations everywhere said they wanted 792,000 watches with inlaid numbers on the face, but only 260,000 were actually delivered. Only 24,500 of the 150,000 luminous dials that were wanted were delivered, a delivery rate of only 16 percent. However, requirements from all over for watches with the old faces was 1.33 million, but more than 2.9 million were actually delivered.

The sewing machines produced in Shanghai were things from grandmother's time on international markets, but the cost of restyling them was high, so businesses would rather have kept making the old ones. The JB 8-2 Butterfly Brand Sewing Machine produced in 1972 by the Shanghai Sewing Machine Plant was a new product with a factory price of 69.80 yuan at the time. The cost of producing it was 62.3 percent higher than for the old product, and the cost profit rate was 36.35 percent. The JA 1-14 Butterfly Branch Sewing Machine was the oldest product that the plant produced. The cost of manufacturing it was low, the factory price was 62.90 yuan, and the cost profit rate was 98.62 percent. Why was the difference in price between the old and the new products so great? The reason was that the old product had already been produced for 70 years, and techniques were fairly familiar. Assembly line techniques were used for large-scale production of more than 400,000 units annually. Production of the new product did not begin until 1972, however. Demand was high but output was small at 8,000-odd units per year.

Though series production had begun in 1979 with an annual output of 200,000 units, profit was 2.18 million yuan less than from production of the old models. As a result, the enterprise was not very enthusiastic about producing the new product.

In solving this contradiction, consideration should be given to changing the method of writing off startup production expenses with less being written off during the time of small-scale production, and more being written off once large-scale production begins. Other more appropriate methods might be considered as well. In short, it is necessary to find a method that will look after the interests of both producers and consumers, and will help develop new products. This is yet another aspect of pricing new products that requires restructuring.

How much profit should be added to costs in setting the prices of new products is also a problem. We believe that all profit rates should serve only as guidelines. What is important is a comparison of expenses and benefits from new products and old products, and following the principle of setting prices in terms of quality, a premium price for premium quality. For products having high value, a fairly large profit may be added to costs. Take, for example, the iron core piston used in a slush pump. The cost of the new product was double that of the old product, but the life expectancy and efficiency of the new product was several times that of the old product. It would certainly be fair to add a profit rate above costs for the new product that was higher than for the old product. In the case of the previously mentioned fancy watch dial and new model sewing machines, a fair additional price should be charged for new styling, new varieties, new designs and new packaging. This would help stir enthusiasm among enterprises for production of new products.

In foreign countries, the setting of prices of new products is given very serious attention.

In the pricing of new products in Japan, the old is used to support the new, i.e., profits from old products help new products along. Once large-scale production of new products is under way, old products are gradually phased out. They are extremely attentive to how to make new products take hold in markets and be accepted by consumers. Consequently, they do everything possible to offer attractive products at low prices. Once prices have been set, plant designers and production personnel strive to lower costs so that a profit may be made from the sale of the new products at the set prices. This becomes a goal toward which producers and designers struggle.

In the USSR, prices are not raised in order to recover expenses of new products. Instead, a fund for new products is established. The amount of the fund for new products is set by industrial leaders on the basis of the annual budget, and a certain percentage of production costs (usually no more than 2 percent) is paid by the enterprise each month to the department in charge. When enterprises under that department develop new products, they may request use of this fund from the department or the administrative bureau.

They also set upper and lower price limits for new products. Prices may be no higher than the upper limit so as to encourage consumers to buy the new products. Nor may prices be lower than the lower limit so as to stimulate enterprise enthusiasm for developing and manufacturing new products. New products are to be priced between the upper and lower limits so that producers and users alike can fully enjoy economic benefits from the new products and everybody will be happy.

As manufacturing costs of new products fall, they lower prices. They first set a "temporary price" that later becomes a "formal price." The temporary price lasts for 1 year from the beginning of production. After 1 year, start up costs have been substantially "digested," and the enterprise has to make new cost calculations as a basis for setting new and lower prices. Following approval, these prices become the formal ones. In addition, a "phased price" is also used, i.e., a decline in estimated costs is used as a basis for preparing a table for automatic decreases in prices. In order to stimulate production of new products, they have set tax exemptions and favorable treatment in profit retention for a fixed period of time, enterprises thereby deriving financial support for development of new products.

C. Pricing Problems For the Same Kinds of Products From Old Industrial Bases and New Industrial Bases

Among the pricing problems for industrial manufactures is the problem of equitable arrangement of the pricing of the same kinds of products from old industrial bases and new industrial bases.

Under guidance of the former erroneous ideology, an all-round expansion of industrial construction was required, with the building of so-called industrial provinces or industrial counties. In order to give support to development of industry in remote regions, temporary prices for goods were set for products for which production techniques did not come up to standards and for which manufacturing costs were high. Alternatively, businesses had to give up profits so that industries could protect their capital while businesses lost money. As a result, though plants were built, they were hot-house flowers. Costs were high, output was low, quality was inferior, and economic results were poor. Losses outweighed gains. Furthermore, numerous plants duplicated one another, with the result that for the country as a whole in certain industries such as automobiles, machinery and pharmaceuticals, production capacity was greater than the amounts of power and raw or processed materials that could be supplied. Everyone competed for raw materials, power and markets with the results that old industrial bases could not make full use of their strengths. Thus, industrialization programs and price policies obviously could not continue to be implemented.

Establishment of industrial provinces and industrial counties is divorced from reality. Correction of this erroneous policy that wasted the wealth of the working people is correct. Furthermore, should remote regions develop industry? If there is continued need, what kind of price policy should be instituted?

We believe that the first requirement here is for a unified long-range plan for the nationwide pattern of industry, and definition of the direction of industrial development at old industrial bases. An old base like Shanghai, for instance, has abundant technical forces and wide-ranging cooperative relationships as a result of the material and technical foundation that has been accumulated over a period of more than 100 years. It has advantages in turning out every kind of product. However, Shanghai's products have to be constantly updated and replaced. The city should march ahead to make high-grade, precision and advanced products, allowing local industries to develop production of some popular goods and old products. All jurisdictions should proceed from their own realities to build industrial enterprises that make the most of local advantages, pastoral regions developing wool textiles, sugarbeet-producing areas developing sugar refining, cotton-growing areas developing cotton textiles, mining areas developing metal processing, etc., for example. However, it is necessary to define a cooperative division of labor and to have fair price policies, i.e., premium prices for premium quality, and different prices for different regions.

In planning and laying out the pattern of local industries, attention must be given the availability of raw materials, building materials, fuel and markets, and whether technical capabilities meet standards. Economic results have to be taken into account. There should be no efforts to cook a meal without rice, no duplication of production and no redundant construction. Price policies should nurture and advance development. So long as society needs them, all products that are locally produced for local sale may be priced in accordance with prices for the same kinds of products from old industrial areas, or else price subsidies may be given as protection at the outset when techniques have not yet been mastered. But such protection should not go on for an unlimited period of time. When local industrial manufactures are needed in markets but there is no way to transport them from elsewhere, during the initial period when costs are relatively high, local enterprises may provide protection within limits set by the price of industrial manufactures at old industrial bases plus transportation expenses. Local jurisdictions are able to produce, though at fairly high costs, some products which are in short supply throughout the country. But when user units are willing to use them, temporary prices or local prices may be used. However, just as soon as goods in short supply become goods in plentiful supply and can be brought in from elsewhere, local jurisdictions may not use lock-out tactics to protect their own backward industries, but must reduce prices promptly. If an enterprise is unable to maintain production because prices are too low, higher authorities should take action to close, suspend, merge or retool them.

Price ratios and stable price problems, problems in pricing new products and problems with pricing of the same kinds of goods from new and old industrial areas are problems that occur everywhere with industrial product prices. Below we take up special problems having to do with means of production and means of consumption and go into them further.

2. Pricing of Means of Production

Production of the means of production is one of two main kinds of social production. Means of production, such as machines and equipment, and raw and processed materials, provide the material basis for technical advances by all economic sectors. The level of a country's economic development and the degree of its technical advancement are closely related to what means of production heavy industry is able to provide each of the country's economic sectors. We say that industry is the leading factor in the national economy, and its leading role is exhibited mostly in how the means of production it provides are able to spark the technical transformation of each sector of the national economy and give impetus to development of productivity.

In China, an overwhelming majority of the extraction industries, raw and processed materials industries, and machine processing industries that provide the means of production are enterprises under ownership of the whole people that do independent economic accounting. They exchange labor mutually with other sectors of the national economy in the form of commodity exchange, and price is a yardstick in the exchange.

Some of the prices of the means of production in China have been carried over from the old society, and prices of many new products have been set according to import prices for foreign products, plus a certain profit added to production costs. In terms of producing enterprises, an overwhelming majority provide some gain above and beyond compensation for costs. In this sense, they are substantially fair. However, many unfair things really do exist. Problems of the following kinds are reflected fairly strongly:

A. Mutual disparity in profit levels among various means of production sectors. For example, for some manufactures and for some raw and processed materials, prices are overly low so enterprises either make little profit or even incur losses on them. In 1979, profit rates on funds for several extraction industries were as follows: iron ore, 3.04 percent; chemical ores, 3.2 percent; and nonferrous ores 4.6 percent, all of which were very much lower than the 10.91 percent average for heavy industry, enterprises losing out over a wide area. On the other hand, product prices were overly high for some processing industries. For example, the profit rate on funds was 45 percent in petroleum refineries, 44.9 percent in the rubber industry, 25 percent in the organic chemical industry, and 22.3 percent in instruments and meters plants.

B. Price ratios were not equitable for raw and processed materials, and for finished goods within the same industry. Take the metallurgy industry, for example. Among the series of products that runs from pig iron to steel ingots to billets to steel products, enterprises have always lost money on pig iron, broken even on steel ingots and billets, and made a profit on steel products. During 1979 and 1980, prices of these products were readjusted so that the price of coal rose 28 percent, coking coal rose 23.3 percent, pig iron rose 33.3 percent, iron ore rose 45.8 percent, steel ingots rose 16.3 percent and billets rose 16.1 percent. Following the price adjustments,

some new contradictions occurred. Before the price rise, enterprises broke even on steel ingots, but now that the price of pig iron had been raised 50 yuan per ton while the price of common carbon steel ingots had been raised by only 40 yuan, steel ingots lost money. Consequently, steel smelting plants had no interest in shipping ingots. Had the prices of ingots and billets been further adjusted upward, that would have hurt the price of steel products. With profits from some steel products already not very high, price inversions occurred when the price of steel ingots was readjusted. One example was 18 x 15 slab steel at 405 yuan per ton while the price for flat steel of the same type was 385 yuan, meaning the retail price was 2.5 percent lower for flat steel than for slab steel.

C. Within the same enterprises, price ratios between raw and processed materials and processed products were unfair. In the metallurgy industry, for example, 1/2 inch welding rods were priced at 1,162 yuan per ton, but if they were processed into oxygen blowing tubes (by adding another coat of aluminum), the price was 1,060 per ton, an 8.6 percent reduction in price. Another example was in the chemical industry where the price of separated phosphorous dimethylbenzene was the same as its raw material, mixed dimethylbenzene. As a result plants did not want to produce it, but phosphorous dimethylbenzene is the raw material for benzene anhydride, and failure to increase benzene anhydride production hurt a rise in output of plasticizers that used benzene anhydride as a raw material.

D. Price ratios for the same kinds of goods were unfair. For example, cold-rolled steel sold for 2,000 yuan per ton providing a profit of 882 yuan, while stainless hot-rolled steel sold for 15,000 yuan per ton providing a profit of 8,508 yuan, or more than 10 times the profit from cold-rolled steel though the work process for both was about the same. As another example, it is easier to complete output quotas and profit criteria for large and medium sheet steel than for small thin sheet steel, so enterprises wanted to produce more hot-rolled stainless steel and large and medium thick sheet steel. However, since supply exceeded demand for these plentiful products, much that was produced was sent to warehouses where it accumulated in inventory while output never increased for products in short supply such as small thin sheet steel, fine-quality steel, wire, welding rods and steel windows. The same kind of situation existed for parity prices between oxygen feed tubes and tube assemblies for electric wires. Oxygen feed tubes are used mostly to blow oxygen into furnaces when smelting steel, and tube assemblies for electric wires are used mostly to protect electric wires. Both use the same materials. In production, a coat of lacquer, pipe threads and connectors are added to the tube assemblies that are not used on the oxygen feed tubes. The originally set price for electric wire tube assemblies was 20 to 50 yuan more per ton than for the oxygen feed tubes. When the country readjusted prices for oxygen feed tubes in 1979, the price of electric wire tube assemblies remained unchanged, with the result that the price of electric wire tube assemblies was 100 yuan per ton lower than for oxygen feed tubes. Enterprises had little enthusiasm for producing electric wire tube assemblies, and the supply dwindled. Though many reasons account for product shortages, inequitable pricing is always one of the reasons.

E. Inequitable price ratios among different kinds of products in the same series. This is the case, for example, with price ratios between round steel and rosette steel (also termed wire rods). This has resulted from lack of full consideration when readjusting product prices. In August 1979, the Ministry of Metallurgy readjusted only the price of 10-18 mm round steel; it did not readjust the price of round steel smaller than 10 mm or thicker than 18 mm, thereby causing inequitable price ratios among different varieties. For example, 6.5 mm rosette steel formerly carried a price of 470 yuan per ton, 15 yuan more than the 455 yuan per ton price of 10 mm rosette steel. When prices were readjusted in 1979, the price of 10 mm round steel increased to 585 yuan per ton, which was 115 yuan higher than the price for 6.5 mm rosette steel. Naturally enterprises wanted to produce round steel but not rosette steel, with the result that rosette steel became a material in short supply.

F. Inequitable price ratios between different specifications of the same product. This results mostly from overly rough breakdowns, too large a gap between grades, and no correspondence with production costs. For example, 10 and 12 mm round ingots are priced the same, but it takes less work to produce the 12 mm ones. So enterprises naturally tend to produce more 12 mm round steel. Even when warehouses are filled with accumulated inventory, enterprises still go all-out to produce them. As another example, 19 mm round steel sells for 395 yuan per ton, while the price for 18 mm round steel is 495 yuan, a difference of 100 yuan between the two. Clearly the difference is too great, so enterprises do not want to produce 19 mm round steel. Some times, however, user units just happen to need 19 mm round steel, so then matters change. They sign contracts for 18 mm round steel while making clear they want 1 mm less (this is a set limit for error). The goods are delivered as being 19 mm, but the price for 18 mm round steel is paid. As another example, the price of cold rolled 0.5 mm thin sheet steel is 60 yuan per ton less than for 0.45 mm thin sheet steel, so enterprises all want to produce 0.45 mm thin sheet steel. As a result supply cannot meet demand for 0.5 mm and 0.75 mm products.

G. Inequitable price ratios among substitute goods. Some products may be substituted for each other for more rational use of resources. One instance is the long-standing shortage of lumber. Were an equitable price ratio maintained among lumber, steel and plastics, one could be substituted for the other for a saving in the use of lumber. Internationally, 1 ton of steel can be exchanged for 1 ton of lumber, but in China 1 ton of steel can be exchanged for between 4 and 5 tons of lumber. Internationally, 1 ton of plastics may be exchanged for between 4 and 5 tons of lumber, but in China 1 ton of plastics may be exchanged for between 20 and 30 tons of lumber. As a result, mutual exchange is difficult. Basically possibilities for using steel instead of wood or plastics instead of wood are very wide. For example, substitution of plastic for wooden thread-on spools in textile plants could save 4,000 cubic meters of wood annually. However, substitution of plastic for wood would carry a high cost, each plastic thread-on spool costing between .07 and .09 yuan versus .03 yuan for wood. Consequently, enterprises do not want to use plastic, but increase pressure on supplies of wood instead. As another example, substitution of metal windows for wooden windows could save a very large amount of wood; however, this is hard to realize since metal windows cost so much.

One can see from the foregoing problems and their effects on circulation that even though the state arranges production in a planned way and organizes supply for most of the means of production in a socialist country; nevertheless, it positively cannot ignore price ratio relationships among them on this account. Realization of national economic plans depends on conscious use of the laws of value. Only through the fair arrangement of price ratio relationships for products is it possible to advance production effectively, make circulation of products easier, regulate supply and demand, and guide consumption in accordance with the state plan.

Historic reasons account for the irrational pricing of the means of production, and there are also reasons rooted in problems in understanding theory and in work.

A look at the historical background shows that the price structure for the means of production in China reflects vestiges of imperialist plundering of raw materials at low prices and sale of manufactures at high prices. Following liberation, after successful research and development, prices of many new products were set on the basis of old products. This carried on the inequitable price structure. Problems in understanding theory were influenced by the conceptions of the USSR during the 1950's when it was believed that the means of production should be low priced, and when it was believed that the means of production were not commodities, which resulted in people not taking seriously the conscious application of the laws of value. Work problems included the price structure coming to a standstill during the 10 years of turmoil. Inequitable price ratio relationships that should have been readjusted as time passed were frozen. Financial revenue collection levers were not well coordinated with price levers, and this also limited the regulatory role that prices could play on production, circulation, distribution and consumption.

Problems with inequitable price ratio relationships for the means of production have existed for a long time, so why has the damage they do assumed special prominence in recent years, and the cry for reform become so insistent? This is closely related to reform of the country's economic system. Formerly, no strict responsibility system had been established between the country and enterprises in China's economic system. The amount of profit that an enterprise made was not closely linked to the enterprise's material welfare. Though high or low prices might affect profit plans, enterprises did not feel any excruciating pain. Once a system of profit withholdings had been instituted, the situation changed. The amount of profit made directly related to the enterprise's development of production and to the welfare and pay of staff members and workers. Moreover, profits were restricted by prices. When prices were high, profits were large; when profits were low, profits were small. As a result, enterprises' regard for prices changed from indifference to extreme concern. This concern about prices was a good development; however, unless the state was adept at using the laws of value, at equitably arranging price ratio relationships for the means of production, at correctly applying tax collection levers, and at channeling in the right direction enterprises enthusiasm for increased output and increased earnings, this enthusiasm could result in a blind head-on collision with plan requirements that would hurt healthy development of the national economy.

So, how should prices of the means of production be readjusted? Just what kind of means of production price policy should be the correct one to adopt?

In the controversy that has raged over means of production price policies from the 1950's to the 1980's, one can see the following several proposals:

One was a proposal for a low-price policy for the means of production. This idea was current during the 1950's. Comrades who held this idea believed that no matter whether looked at in terms of historical price parities or the gap between prices and costs, prices of the country's means of production were higher than prices for light industrial manufactures and agricultural products, and for a substantial number of the means of production prices were high and profits great. Consequently, they advocated a lowering of these prices and setting of profits rates for the means of production at 3 to 5 percent of production costs. They applauded the ideas that were current in the USSR during the 1950's of using some of the net earnings from heavy industry to develop light industry and other sectors producing items used in daily life. They believed the advantage in so doing would help impel enterprises to adopt new techniques.

Yet another proposal was that prices of heavy industrial manufactures should not be too low. It was held that prices should equal value, otherwise proportional relationships in the national economy might become distorted, fostering irrational use or waste of the means of production, or even damaging socialist reproduction. They believed that low prices for the means of production made impossible the hastening of mechanization of production in all sectors of the national economy, because the speed of mechanization of all sectors of the national economy was determined by the increase in national income and the distribution ratio of national income used in social accumulations, as well as by the supply of the means of production and development of agriculture. They believed that expenditures for capital construction and payments for technical organization measures were based on real needs and disbursed by the state; consequently, low prices for the means of production could not stimulate enterprises to buy more machinery.

The third view was that prices of the means of production must be readjusted in accordance with a unified profit rate on funds, a unified profit rate on wages, or a unified profit rate on costs.

All of these proposals made a certain amount of sense, but all of them had their shortcomings as well.

The focus of a means of production low-price policy was on stirring the enthusiasm of users to employ new techniques, but it overlooked the need for producers to gain a fair profit. Following institution of responsibility systems and expansion of self-determination, this point became harder to implement. However, one should not come to the conclusion on this account that there should be no lowering of prices for all means of production. After some new products have been successfully developed and gone into formal production, prices have not been readjusted as costs declined. Profits have been too high, and failure to lower prices hurts the spread of new

products for use. This is the problem with coal mine machinery. If one were to say that machinery prices had no effect on the spread of machinery in use because of the institution during the 1950's of centralized financial receipts and expenditures, and state disbursements for capital construction payments and the four categories of expense, then once the financial and economic systems had been restructured and enterprise self-determination increased, the situation changed and the prices of machinery became irrelevant to enterprises. Consequently a lowering of overly high priced machinery helped the spread of new techniques and opened markets for new products.

The idea that prices for the means of production should accord with value, and the idea that prices should be set on the basis of a uniform rate of profit also have their own individual shortcomings. We have already discussed this in Chapter 1. The rational discussed there also applies to the pricing of the means of production.

We believe that readjustment of prices of the means of production should be based on the principle of concurrent concern for the interests of the country, producers and consumers (both consumers of the means of production and consumers of the means of livelihood). In order to do this, product prices must insure compensation of costs plus a fair profit. Correct handling of the interests of the three doubtlessly includes the objective requirement of prices corresponding to value. However, sole pursuit of prices being synonymous with value and an arbitrarily uniform single rate frequently makes it impossible to achieve the goal of unified planning with due consideration to the interests of all three. For example, coal mining costs have risen now, and unless prices are changed profits will be overly low and disadvantageous for producers. However, for coal profit levels to keep up with the average, prices would have to be increased tremendously, and this would inevitably affect fuel costs for coal-using units and consumer standards of living. It would ramify throughout the national economy. If there is an inversion between the in and out price with the country providing a financial subsidy to operators, this will adversely affect the balance between financial receipts and expenditures. Therefore, consideration of the interests of producers alone is not enough; the optimum plan for regulating prices must be chosen with concurrent concern for the interests of all three parties as a premise. As another example, in order to encourage substitution of steel for wood, the price of steel windows should be lowered. This fits in with national policy requirements. However, once the price of steel windows has been lowered, enterprises will make too small a profit on them, and this will hurt their interests. Under these circumstances, a choice will have to be made between raising the price of wood or lowering the tax rate on steel windows, or using a combination of methods to look after the interests of all parties concerned.

Readjustment of the prices of the means of production in accordance with the interests of all three parties by no means rules out a study of setting prices in terms of various uniform profit rates; however, one must not rigidly adhere to a uniform profit rate; instead it is necessary to use a uniform price rate as a kind of reference for rational arranging of price parities. In this way, when we are readjusting prices for the means of production, there

will be no need to topple a certain rate and re-do it. Rather, we should first respect the realistic foundation of price ratio relationships that have been formed through countless exchanges and adopt the method of "readjustments to both ends with no change in the middle." By no change in the middle is meant maintenance of the existing price without change for goods for which costs can be compensated and a fair profit obtained and for which price ratios with surrounding products are generally equitable. By readjustments to both ends is meant equitable readjustment of prices for those goods for which prices are too high and profits too large, or for which prices are too low and profits too small or nonexistent, as well as for those goods for which price ratio relationships are out of line with associated goods in the goods series. When it is necessary to maintain a high price or a low price for goods for the sake of the concurrent interests of the three parties, regulation should be done through application of financial taxation levers.

To a certain extent, taxes on goods can solve problems with overall balance in profits among products, and can also encourage or restrict production; however, they cannot solve problems involving balance in profit rates among enterprises. This is because: (1) The kinds of goods that each enterprise produces differ, and since profits on products cannot be entirely even, because of the diversity of products enterprises produce, the extent of profits that each enterprise obtains cannot be equal. (2) Even in the case of enterprises that produce the same kinds of goods, since equipment differs from one enterprise to another and since the natural abundance of mines differs, though subjective efforts may be the same, different economic results will be produced. Solving this problem will also entail use of tax levers, meaning use of different tax rates for different enterprises, different profit regulation taxes, and different resources taxes so as to regulate too wide a disparity in profits among enterprises. However, for profits to be absolutely even is impossible, and unnecessary as well. After tax profits are retained in accordance with methods for dividing profits, so that enterprises with different scales of production will be provided with roughly equal financial resources for tapping of potential, innovation and transformation, as well as for staff member and worker welfare. This will help enterprises begin to compete from the same starting point. In short, proper reform of the economic system and readjustment of means of production prices is entirely necessary; however, prices positively cannot be allowed to fight alone; financial taxation levers must also be applied and the two coordinated both in order to make the most of the positive role of price levers and to limit their negative role.

The current inequitable price ratios for the means of production are an accumulation from many years, so it would be difficult to solve the problem in a single stroke. We believe that these inequitable price ratio relationships can be gradually resolved. The first step is to resolve those that can be resolved through regulation within industries themselves; the second step is to resolve those that can be resolved through regulation among industries; and the third step is to resolve those that have a bearing on the shifting of net income among several systems of ownership, and that hurt the interests of the country, collectives and individuals. Consequently, it is necessary to adopt an attitude of extreme prudence in the readjustment of prices. There

has to be across-the-board planning and a steady pace. Means of production prices constitute costs for the means of consumption, and so it is necessary to consider fully and adopt corresponding countermeasures when readjustment of prices of the means of production may lead to a price chain reaction. Price readjustments bear on the redistribution of earnings. Historical experience shows that price readjustments can both stir the enthusiasm of producers and can protect the interests of consumers, provided the country makes certain profit concessions. This is a smart method of making present concessions for future gains. It is just because of this that fairly large price readjustments should be carried out at times when the country's financial circumstances are good and its resources ample.

It is very difficult to accomplish at a single stroke the readjustment of means of production prices. This is because production conditions for various kinds of products and labor productivity rates are constantly changing, and these changes are uneven. Price ratios that become equitable as a result of readjustment may become inequitable after another several years. Consequently, plan prices should not be firm. We have to have constant prices for statistical purposes; however, in real economic life, plan prices cannot be converted into constant prices. Instead they must be readjusted to meet changed production conditions. The way of doing things whereby prices do not change ordinarily and a major readjustment is made once every 10 years is obviously divorced from reality. Conversely, making myriad changes when no changes have occurred is also wrong. In short, we must consciously apply price levers and taxation levers in the regulation of production, distribution, exchange and consumption. Under normal circumstances, the country's means of production prices and tax rates should be individually readjusted regularly.

3. Coal Pricing

Coal is both the food of industry and an indispensable fuel in the people's lives that has an extremely great bearing on the national economy and the people's livelihood. Coal prices affect costs and prices of all industrial manufactures, and they also affect the people's standard of living; thus study of coal prices holds particularly great significance.

China has plentiful coal resources of all kinds. As of the end of 1980, proven reserves amounted to 642.5 billion tons. The country has scored very great accomplishments in the development and use of coal since founding of the People's Republic. In 1949, coal output was only 32 million tons, but by 1979 the figure was 635 million tons, an 18.8-fold increase over 1949. Coal has accounted for about 70 percent of total energy consumption. Given the characteristics of the country's resources, China's energy will derive primarily from coal for some time to come.

Though China's coal mining industry has developed very rapidly, since the overall national economy has been proportionally imbalanced, and the coal industry internally proportionally imbalanced as well, its increased output has lagged behind the needs of processing industries, and it is in danger of being unable to keep up. Today, an approximate 20 to 30 percent of China's industrial production capacity is not being used. In order to solve the

energy shortage problem, the country has given priority position to development of the coal industry. It has taken both a firm grip on saving coal and on readjustments in an effort at fairly rapid development of the coal industry.

However, a conspicuous problem exists in coal industry operations, namely, the steady rise in costs and a situation of widespread losses. After the price of coal was raised by 5 yuan per ton in May 1979, half of all coal mines continued to operate at a loss. The profit rate on funds throughout the industry was only 3.04 percent, which was not only lower than the 12.67 percent profit for industry as a whole, but lower than the 10.91 percent profit for the heavy industrial sector. Thus, production departments urgently demand a rise in prices. This is a difficult problem. Unless prices are raised, many enterprises will operate at a loss; it will not be possible to solve well problems of welfare and bonuses for staff members and workers, and this will damage the enthusiasm of producers and be unfavorable for development of the coal industry. But if prices are raised, every industry's costs will be affected, and the impact will be greatest particularly on electric power, railroad transportation, coking coal, pig iron, steel products, cement, chemical fertilizer, pesticides, porcelain and pottery, glass, bricks and tile. Bungling of a price rise for coal can spark a chain reaction of demands for price rises. This is particularly true for the use of coal by the people. A rise in prices will affect the people's standard of living, and financial subsidies will have to be increased in order to guarantee no decline in the people's real income.

A great deal of controversy currently centers around coal cost and price problems.

A. First of all, one problem is just what is the basic way out of the problem of coal losses?

One view holds that it is objective law that there be incremental increases in coal costs. Unless coal prices are increased as costs increase incrementally, the loss problem can never be solved. Yet another view holds it is not an objective law that there be coal losses, but that they have been created by mistakes made in work under the influence of "leftist" ideology. Solution to the loss problem lies not in raising prices, but in reliance on readjustments, consolidation and technical improvements to bring down costs. We do not agree with the first view, but we approve the second one.

During the past 32 years, raw coal unit costs have truly risen. In 1952, coal mining cost 9.77 yuan per ton; in 1979, it cost 17.78 yuan per ton, an 81.99 percent increase over 1952, or an average increase of 3.04 percent per year. How can this situation be explained? Comrades who hold the first view quote figures from coal mines in certain areas to demonstrate that as mine shafts become deeper, the amount of water to be drained from mines increases, the amount of mine shaft ventilation increases, the number of tunnels to be maintained increases, and thus costs must inevitably rise.

We believe that though these views make sense, they are incomplete in that they consider only the natural laws applying to mine shafts. Actually, the cost curve for a mine shaft is in the shape of a parabola from youth to the

the prime of life to old age, i.e., costs are high during youth and old age, and low during the prime of life. However, coal mining differs from ordinary industrial production in that construction of one mine shaft after another has to be compensated. All we need do is connect together the cost curves of new and old mine shafts, to form a 'XXX' shape. Therefore, in an overall sense, coal mine costs may be kept in balance.

But even for a single coal mine shaft, costs do not steadily rise as the depth of shafts deepen. We can use historical data on changes in per unit costs of mining raw coal at various levels at the Xinzhuangzi Coal Mine in the Huainan Mining Bureau to explain this problem (See Table 6).

Table 6. Changes in Per Unit Costs of Mining Raw Coal at Various Levels at Xinzhuangzi in the Huainan Mining Bureau 1957-1960

Year	年产量 1)(吨)	-27m 水平产量 2)(吨)	-47m 水平产量 3)(吨)	-112m 水平产量 4)(吨)	-112m水平产量 占全矿年产量的 5)比重(%)	全部吨 煤成本 6)(元/吨)
1957	1,224,399	3,644	634,408	426,212	34.25	8.13
1958	1,577,187		117,950	1,245,696	78.98	7.53
1959	2,572,032		20,012	2,025,377	78.75	6.51
1960	2,853,323		1,285	2,208,474	77.40	6.41

Key:

- 1) Annual output (tons)
- 2) Output (tons) at the -27 meter level
- 3) Output (tons) at the -47 meter level
- 4) Output (tons) at the -112 meter level
- 5) Output (tons) at the -112 meter level as a percentage of the whole mine's annual output (%)
- 6) Total costs per ton of coal (yuan/ton)

The Table 6 figures show a yearly rise in the mine's output of raw coal from 1957 to 1960, and beginning in 1957 output from the -112 meter level also rose yearly. Conversely output from the -47 meter level decreased yearly. Increase in output from the -112 meter level reduced fixed costs as a percentage of per ton of coal costs at the -112 meter level, and consequently costs per ton of coal fell yearly.

The point to be made clear here is that there is an overlap period in mining at various levels, which is to say that before the next lower level goes into production, the level above cannot yet halt production simultaneously. Mining goes on at both levels for a certain period of time. This period of time is the overlap period. The shorter the overlap period, the higher the concentration of production, i.e., production is concentrated at one or two levels. The simultaneous mining at any given levels is nonconcentrated mining, and an increase in the production links of transportation, lifting, and electricity supply will occur bringing about a rise in raw coal costs. The period of

overlap during these few years at Xinzhuangzi Mine was just right, and production management was in accord with concentrated mining principles, and this was a reason for the decline in costs.

Let us take another look at cost data for this mine during the 1961-1966 readjustment period (See Table 7).

Table 7. Changes in Per Unit Raw Coal Mining Costs at Various Levels at Xinzhuangzi Mine in the Huainan Mining Bureau 1961-1966

Year	年产量 1) (吨)	-112m 水平产量 2) (吨)	-262m 水平产量 3) (吨)	-262m水平 产量占总产量 4) 比重(%)	全部吨煤 成本 5)
1961	2,350,100	1,879,082	35,225	1.5	8.26
1962	1,957,807	1,248,495	448,499	22.9	9.99
1963	2,032,722	923,793	963,392	47.39	10.38
1964	2,051,972	853,501	979,034	47.71	10.46
1965	1,788,211	573,361	1,023,036	57.21	10.35
1966	1,838,791	353,844	1,343,957	73.09	8.79

Key:

- 1) Annual output (tons)
- 2) Output at -112 meter level (tons)
- 3) Output at -262 meter level (tons)
- 4) Output at -262 meter level as a percentage of total output (%)
- 5) Total costs per ton of coal

Table 7 shows the mine as having entered a period of readjustment from 1961 to 1966 when output declined in order to readjust previous proportional mining imbalances and to increase tunneling. Costs per ton began to mount. In 1961, the mine began to extend its shafts downward, i.e., to the -262 meter level. In 1965, output from the -262 meter level began to increase and output from the -112 meter level gradually decreased. Though output of raw coal during 1965 and 1966 was lower than during the previous several years, because output from the -262 meter level rose from 57.21 to 73.09 percent, costs per ton of coal declined. Then why did costs rise between 1962 and 1965? The basic reason was that between 1958 and 1960 the mine had lived off its previous investment, causing a proportional imbalance in mining operations and making necessary further tunneling during the readjustment period.

This example shows that deepening of mine shafts does not necessarily increase costs per ton. Whether costs increase or decrease will depend on whether there are better mining conditions and coal seams at the lower level than those at the upper level. Materials and labor costs for tunneling and stoping are the main costs in coal mining. The Huainan Mining Bureau shows that direct costs incurred from tunneling and stoping differ but little from one level to another. Sometimes geological conditions and conditions for production techniques are better at the lower level than at the higher level,

so direct costs in stoping are frequently lower than at the higher level. Under these circumstances, increases in fixed costs for lifting, handling and electromechanical equipment certainly account for a rise in costs, but one must look at output to see whether or not costs actually rise. If raw coal output is equal to or less than at the higher level, per ton costs of coal will rise. If raw coal output at the lower level is more than from the higher level, fixed costs as a ratio of costs per ton of coal will decline, and at this time costs will decline relative to the higher level.

Comrades who suggest that an incremental rise in coal costs is an objective law also quote foreign sources to demonstrate the existence of such a law. However, a reading of foreign materials by no means demonstrates this to be true in every country. They have not made a specific analysis, but have reached a conclusion solely on the basis of superficial figures. Take the United States, for example (See Table 8). Coal prices there seem to have risen steadily over a very long period of time when actually they have been stable.

Table 8. United States Anthracite Coal Wholesale Price Table

Year	\$/ton	Year	\$/ton	Year	\$/ton	Year	\$/ton
1970	16.57	1947	{ 10.33	1927	10.95	1904	4.83
1969	15.02		{ 14.11	1926	11.48	1903	4.83
1968	13.71	1946	13.06	1925	11.19	1902	4.46
1967	12.89	1945	11.89	1924	11.37	1901	4.33
1966		1944	11.47	1923	10.88	1900	3.92
1965	12.98	1943	10.89	1922	10.60	1895	2.98
1964	13.90	1942	10.31	1921	10.53		{ 3.35
1963	13.36	1941	10.01	1920	9.50	1890	{ 3.92
1962	13.05	1940	9.55	1919	8.27	1885	4.10
1961	13.35	1939	9.14	1918	6.86	1870	4.39
1960	13.95	1938	9.44	1917	5.94	1865	7.86
1959	14.18	1937	9.37	1916	5.57	1860	3.40
1958	14.24	1936	9.74	1915	5.33	1855	4.49
1957	14.67	1935	9.59	1914	5.32	1850	3.64
1956	13.53	1934	9.64	1913	5.31	1845	3.46
1955	12.93	1933	10.06	1912	5.28	1840	4.91
1954	14.01	1932	10.88	1911	5.00	1835	4.84
1953	15.45	1931	{ 11.40	1910	4.81	1830	9.05
1952	14.30		{ 12.77	1909	4.82	1825	{ 9.16
1951	14.19	1930	12.72	1908	4.82		{ 0.25
1950	12.58	1929	12.89	1907	4.82	1820	0.317
1949	12.04	1928	{ 13.00	1906	4.86	1815	0.597
1948	11.57		{ 10.93	1905	4.82	1810	0.369
						1805	0.399
						1800	0.309

Explanation:

- (1) When two prices have been given for a single year, the second of the two prices should be compared with the price for the preceding year, and the first of the two prices should be compared with the price for the succeeding year.
- (2) The unit of measurement is tons beginning in 1825 (standard); prior to 1825, the unit of measurement is an 80-pound bushel.
- (3) Source of data: "American Statistical History," 1976.

Table 8 shows the following:

First, during a 170-year period, American coal prices did not rise, but rather rose and fell, and the result of rises and falls was virtual maintenance of the existing price level. The table shows that in 1815, the price of an 80-pound bushel of anthracite coal was \$0.597, which converts to \$14.925 per ton, and in 1969 the price was \$15.02 per ton. Over a 154-year period, the price of anthracite coal had increased by only \$0.095 per ton. The major component in price was costs. Changes in prices no doubt reflected to a very great degree changes in costs.

Second, in 1985 the price of coal fell to \$4.84 per ton, and it lingered at a low level of between \$3.00 and \$5.00 per ton for the following 80 years. It began to rise gradually only following the beginning of World War I, and it climbed to more than \$10.00 by 1920. However, it again fell to below \$10.00 per ton during the 1920's [as published; probably should read 1930's], and it was only after the beginning of World War II that it rose again to more than \$10.00 per ton. For 25 years after the war, it basically fluctuated between \$12.00 and \$15.00 per ton. During the past 10 years, the price has remained at a high level, and this is closely related to inflation in the capitalist world and the energy crisis. An American price index in 1979 of 213.2 percent compared with 1970 shows the effect of outside influences on the rise in coal prices to have been very great. Though natural conditions were an element in the rise in costs of mining coal, on the other hand technical advances and an increase in quantity and quality resulting from new mines having gone into production were factors restraining a rise in costs.

Neither Chinese nor foreign data are sufficient to demonstrate that incremental increases in costs are an inevitable trend. Then how can the rise in coal costs during the 32 years since founding of the nation be explained?

Thirty years of data show costs to have been 80-odd yuan per 100 yuan of sales from uniformly allocated state-owned coal mines during the First 5-year Plan. During the "Great Leap Forward," costs declined precipitously to 60-odd yuan. This was abnormal, and it buried the roots of future costs rise problems. As expected, during 1961-1962, costs shot up to 90-odd yuan and even as high as 100-odd yuan. As a result of readjustments, they returned to slightly more than 80 yuan during 1965-1966. After the beginning of the

"Great Leap Forward," costs again rose, and after 1974 they began to fluctuate around the 90-odd yuan mark. This trend demonstrated that the rise in costs of raw coal was closely related to "leftist" errors. The quest for high norms during the "Great Leap Forward," upset the coal extraction balance, and too much coal was consumed, causing a loss of back-up for production resulting in a slide in output during 1961 and 1962 and a sudden spurt in costs. The rise in costs during the 10 years of turmoil likewise resulted from over-mining and proportional imbalance in extraction.

The following should be noted in particular. The two major rises and the two major falls in coal mine capital construction, and the two instances of going into production ill-prepared, only to retrench and recoup two times, destroyed the continuity in size of the coal industry, and this was a major reason for the rise in raw coal costs. Once a mine shaft has gone into production, its output is low initially, high during the middle period, and low again toward the end. This is an unchangeable pattern. However, people can put numerous intersecting shafts into production to lessen this impact, and since high output during the middle period offsets low output during the initial and late periods, the coordinate axes on a graph form a nearly parallel line, and thus gross output tends to be steady. If this is done, cost fluctuations may be controlled. However, such an arrangement relies on continuous balance among mining areas and among individual mines. Such a balance is possible only through capital construction. However, mistakes made in coal mine capital construction policies during the two rash advances in size continuity were fundamental factors in the abnormal rise in costs of raw coal.

In addition, inept administration and management is also an element in the rise in raw coal costs.

The 10 years of turmoil destroyed the foundation for cost management. This led to the lack of a fixed scale for cost expenditures with the result that costs became a cover for free spending and waste. Since 1980, the Ministry of Coal Industry has taken a firm grip on consolidation beginning with a consolidation of management at the grassroots level, which has stirred the enthusiasm of coal enterprises. This has brought about a 20 million yuan saving for the Shanxi Mining Bureau, coal mining costs declining by an average more than 2 yuan per ton. The drop may be more than 3 yuan per ton at the Zaozhuang Mining Bureau. If savings are figured at 2 yuan per ton of coal, in 1980, the per unit cost of raw coal in uniformly allocated coal mines will decline from 20-odd yuan to around 18 yuan per ton. If changes in economic policies result in a rise in wages and the price of materials plus changes in standards for withholdings of funds for updating are deducted, costs per ton of raw coal will not exceed 15 yuan. This is a fairly advanced level for the past 20 years.

Some people suppose that China's shallow mines and mines having good mining conditions have been mined out. It is hard to support this contention. China has plentiful coal reserves. According to data contained in a May 1980 report by the World Coal Research Association, China's geological reserves of coal amount to 1.438 trillion tons, second only to the USSR

(4.86 trillion tons), and the United States (2.57 trillion tons) for third place in the world, China's mineable reserves amount to 142.4 billion tons, enough for more than 200 years at the current annual output level.

Nowadays all trades and industries are devoting attention to economic results. Where should the coal industry seek economic results? It should seek economic results within coal enterprises and in technical reforms. There is still a very large potential to be tapped in this regard in an effort to lower the cost of raw coal. Though China has also paid attention to technical improvements in coal production during the past 20 years, nevertheless, as a result of one-sided emphasis on the amount of output and lack of attention to economic results, production of uniformly allocated coal mines has been fundamentally in a state of "small, dispersed, and dense," (meaning mines are small scale, producing areas of mines are scattered, and coal field areas are concentrated). The shortcoming of small scale is, first of all, that it does not fit in with the use of advanced technical equipment; full benefits cannot be derived from the use of advanced equipment. Second, the deeper the level at which mining is done, the greater the fall in capacity and the poorer the economic norms derived from technology. The disadvantage of dispersed production is low yields per unit of work area and small capacity of mining areas. Many individual producing units are in operation simultaneously, and this inevitably entails the use of a large amount of fixed assets and equipment, a low utilization rate, and large expenses for maintenance of tunnels. The trouble with a high density of coal fields is that there are numerous production shafts running only short distances. This means the mine shafts have to be deepened frequently, a large amount of earth and rock must be moved, the amount of coal obtained per 100 meters of depth is small, and a passive situation of frantic replacement exists for a long time. Furthermore, deepening of the pits and production conflict with each other causing headaches in the management of production. The major coal-producing countries of the world today use centralized production as the principal direction of their efforts to increase economic results. For example, in 1960 Poland had 81 coal mines, which they combined into 65 in 1976 with the result that mine output rose from 4,121 tons per mine per day to 8,849 tons per mine per day, and miner efficiency increased from 1.4 tons per miner to 3.3 tons per miner. In 1976, the number of mining levels dropped to 167 versus the 216 levels of 1957, and daily output for each level increased by 2,082 tons. There were 193 fewer mining areas than in 1963, and daily output increased 797 tons. Individual work sites were 272 fewer than in 1960, and output increased 560 tons daily.¹

China has also had successful experiences in the centralization of production. For example, after the Tonghua Mining Bureau's Zuzi Coal Mine went into production in 1958, a pattern of many workfaces in many mining areas was adopted. This led to decentralized management of production, a transportation system having numerous sections, the languishing at a fairly low level for a long time of economic norms derived from technology, and failure to achieve designed capacity even after being in production for many years. Between 1974 and 1977 production at such mines was gradually centralized in a rational way

¹ "Coal Science and Technology," Fourth Quarter 1951, pp 23-27.

for a steady rise in mine capacity, and for improvement in economic norms derived from technology. The 310,000 tons of gross output of 1972 climbed to 626,000 tons in 1977. During the same period, the volume of coal extracted rose from 239,000 tons to 583,000 tons; the average number of individual mining faces decreased from 4.11 to 3.17; yields per unit of area rose from 4,800 to 15,300 tons per month; efficiency for all personnel rose from 0.71 to 1.17 tons per worker, and the tunneling rate fell from 312 to 193.2 meters per 10,000 tons. Tunnel maintenance costs of 17.20 yuan per year [presumably per meter] between 1970 and 1973 fell to 10.10 yuan between 1974 and 1977. The 1972 consumption of 237.26 cubic meters of pit props per 10,000 tons of raw coal fell to 160 cubic meters in 1977, and the 1972 cost of 11.28 yuan per ton of raw coal fell to 7.12 yuan in 1977.²

This shows that technical improvements offer considerable possibilities for gaining economic results and lowering costs. Those who suppose incremental increases in costs are an irreversible trend do not include the element of technical progress within their purview. In addition, they do not take sufficient account of the effect on costs of the currently imperfect economic accounting system and backward management methods used in China's coal enterprises.

Looked at in terms of the economy as a whole, increase in economic results requires good performance in national economic proportional relationships and continuity among the size of mines. This requires, in turn, long-term planning for rational exploitation and use of China's coal resources.

The foregoing has analyzed reasons for rises in coal production costs, and has explained that rises in costs resulting from abnormal factors cannot be grounds for requiring a rise in coal prices.

B. The second problem is the problem of whether the overly low price of coal should be raised on the basis of an average rate of profit, as well as what costs should be used as a basis for setting prices.

For a view of the evolution of coal profit rates since founding of the People's Republic, please see Table 9.

Coal prices have been relatively low for a long time for historical reasons. Prior to liberation, coal was one of the major resources of China plundered by imperialism, and coal prices were held down very low. During the period immediately following liberation, major administrative regions themselves set coal prices on the basis of the preliberation cost and price system and in accordance with the principle of suiting general methods to local situations. The initial level was low. Though several readjustments were made subsequently, since a rise in coal costs would affect all aspects of the national economy, and would have a direct impact particularly on the standard of living, the extent of increases could not be too great; thus, profits remained at a fairly low level.

² Ibid, p 29.

Table 9. Coal Cost-Profit Ratio

Year	成本① 1)元/吨	价 格① 2)元/吨	税 收① 3) 元	利 润 4) 元/吨	成本利润率 5) %	成本 税 6)利 率%
1952	9.00	11.46	0.86	1.60	17.78	27.33
1957	10.90	12.05	0.90	0.25	2.29	11.28
1960	9.17	14.97	1.20	4.60	50.00	63.24
1962	17.28					
1965	15.77	18.00	1.44	0.79	5.00	14.14
1970	13.47	18.00	1.44	3.09	22.94	33.63
1971	13.60	18.00	1.44	2.96	21.76	32.35
1972	14.08	18.00	1.44	2.48	17.61	27.84
1973	14.51	18.00	1.44	2.05	14.13	24.07
1974	17.14	18.00	1.44	-0.58	-3.38	5.02
1975	15.86	18.00	1.44	0.70	4.41	13.49
1976	16.70	18.00	1.44	-0.14	-0.84	7.78
1977	16.61	18.00	1.44	-0.05	-0.30	8.37
1978	16.12	18.00	1.44	0.44	2.73	11.66
1979	17.78	22.10	1.77	2.55	14.34	24.29

7) 说明:

(a) 资料来源:《经济研究资料》1981年第2期,第11页。

(b) 1958年以前按销售收入依试行工商统一税煤的税率7.5%计算,此后依工商税税率8%计算。

Key:

- 1) Cost (1) yuan/ton
- 2) Price (1) yuan/ton
- 3) Taxes (2) yuan
- 4) Profit yuan/ton
- 5) Cost-profit ratio %
- 6) Cost-tax and profit ratio %
- 7) Explanation

(a) Source of data: "Economic Research Materials," Second Quarter 1981, p 11.

(b) Figured in accordance with a trial industrial and commercial uniform 7.5 percent tax rate on income from coal sales prior to 1958; figured subsequently in accordance with an 8 percent industrial and commercial tax rate.

One view holds that prevailing coal prices are too low and profits too small, which is unfavorable for development of the coal industry. They advocate the addition to costs of a uniform average rate of profit on funds in setting the price of coal.

We believe that the low price of coal is a fact, and that proper readjustment of the price is a necessity; however, the size of steps taken should not be too large, and one especially cannot make large-scale readjustment on the basis of a uniform average rate of profit on funds.

Price based on costs plus an average rate of profit on funds would bring a major reorganization of the price structure in its train with wide-reaching effects. Although, for state-owned enterprises that use coal profits would be transferred within the same system of ownership and the state could use the method of checking and reducing per unit profits for coal so that no damage would be done to the enterprises and the prices of their products could be maintained without change; however, for collectively owned enterprises, the situation is different. In their case, there is no one to take responsibility for losses resulting from a rise in costs occasioned by a rise in coal prices. The price of their products would have to rise as the price of coal rose. This would give rise to price fluctuations. In another area, a rise in the price of raw coal would adversely affect the people's standard of living. Though the country has pursued a policy of price stability in retail sales since founding of the nation, prices for fuels (notably coal) have still risen. Among six major consumer goods, the price rise for fuel has been second only to food. Were a large readjustment in the price of raw coal to be made again, inevitably a major rise would occur in the price of coal used by the populace, and this would adversely affect the stability of the people's standard of living. These problems arising out of a large-scale increase in coal prices must be taken into consideration.

It is certainly true that unless coal prices are readjusted, possibly some coal businesses will not be able to free themselves from losses. We believe this problem is not an irreparable one. Were losses to be reduced and divided up in the case of mines operating at a loss, the result would not be limited to profit withholdings. There would also be another advantage, namely the establishment for enterprises of a clear goal of turning losses around, causing them to concentrate their energies on improving operations to achieve economic results. This would also be a way of bringing contradictions to light and solving them. The key to reducing losses and dividing them up lies in setting fair base figures for losses. At the same time, it is necessary to link together the norms that reflect increased output and conservation, such as dividing up amounts, fulfillment of quantity, quality (ash content), fuel power, raw and processed material consumption, costs, profits, total wages and tunneling footage in order to get enterprises to put efforts into improving administration and management and raising economic results.

Comrades who advocate setting prices in terms of an average profit rate on funds and who argue for balance in profits among products, the same amount of funds creating an equal value, are divorced from the country's real circumstances in a theoretical sense and not in accord with socialist principles. Enterprises under a system of socialist ownership by the whole people differ from enterprises under private capitalism. Socialist enterprises are concerned with the profits to be retained by the enterprise and not with total profits. So long as the country leaves enterprises with roughly the same benefits through the use of profit withholdings or loss reduction withholdings so that their efforts are correctly evaluated and correspondingly remunerated, it makes no difference to them at what profit rate prices are set. This is because they are not private capitalists and have no objective need to set prices in terms of average profit on funds. Conversely, setting of prices in terms of average profit on funds requires a thoroughgoing

reorganization of the price structure, and this must inevitably throw into confusion the existing order of economic life. In addition, it makes it difficult to show concurrent concern for the interests of producers, consumers and the country and consequently, it is not worth doing.

It was said earlier that it is necessary in setting coal prices to insure that costs are compensated, and that this gives rise to the problem of the costs on which prices should be set: on the basis of the cost of low-grade resources or on the basis of average costs. China currently uses the normal overall average cost of producing raw coal at major coal mines as the basis for setting prices. Some people believe that since the quality of coal resources bears on whether coal costs will be high or low, and since the current amount of coal is unable to satisfy society's needs particularly in some coal-short areas, low-grade resources should also be mined there. For this reason, they propose that coal prices not be set in terms of some average costs but rather in terms of costs at coal mines having low-grade natural conditions. This problem is identical in nature with setting prices of agricultural products in terms of production costs on low-grade land. This gives rise to two problems immediately. One is that to set prices in terms of production costs using low-grade resources would mean that mines having medium-grade and superior-grade resources would gain differential earnings. The second is that prices for raw coal would rise greatly. The first problem can be solved fairly easily by levying a resource tax on mines having superior- and medium-grade resources, the country recovering the differential earnings. However, the price rise problem, as in the case of setting prices in terms of an average profit rate on funds would result in a lack of price stability.

A choice can be made between two methods for solving the problem of how to compensate in a material way those enterprises that incur losses because prices are set in terms of average costs when their resources are poor and their costs high.

First is regulation through financial plans, which is currently the actual method used. The country helps out with the enterprises' losses. The shortcoming of this method is that it makes some enterprises into perennial planned-loss enterprises.

Second is institution by the management bureau of an internal final settlement regional price differential. This means guaranteeing an overall price level but, at the same time, designating enterprise average production costs within a mining zone on the basis of natural economic conditions, and setting different prices by mining bureau. Use of internal final settlement prices could apportion among other coal enterprises some of the differential earnings without affecting society. A trial hypothesis is shown in Table 10.

Such internal prices have significance not only in final settlements, but economic significance as well. Enterprises can use these prices as a basis for plan costs and actual costs in figuring out the enterprise's economic results. Nevertheless, when figuring internal final settlement prices, it is necessary to consider not only cost factors but also to multiply the different

coefficients of coal quality criteria, such as product ash content, kind of coal and moisture content, before determining the final settlement price. In addition, as normal coal mine production conditions change, internal final settlement prices will have to be changed regularly.

Table 10.

矿务局 1)	实际出厂价 2)(元)	生产成本 3)(元)	盈 利 4) (元)	成本盈利率 5) (%)
6) 甲 矿 井	24	12	12	100
7) 乙 矿 井	24	14	10	71.43
8) 丙 矿 井	24	34	-10	-29.41
9) 矿务局平均	24	20	4	20

矿务局 1)	内部结算价格 10)(元)	生产成本 3)(元)	盈 利 4) (元)	成本盈利率 5) (%)
6) 甲 矿 井	18	12	6	50
7) 乙 矿 井	18	14	4	28.6
8) 丙 矿 井	36	34	2	5.9
9) 矿务局平均	24	20	4	20

Key:

- 1) Mining bureau
- 2) Actual mine price (yuan)
- 3) Production cost (yuan)
- 4) Profit (yuan)
- 5) Cost-profit ratio (%)
- 6) Mine A
- 7) Mine B
- 8) Mine C
- 9) Mine bureau average
- 10) Internal final settlement price (yuan)

Coal costs in the USSR are figured out individually and in detail on the basis of different development and mining methods, different technologies and the degree of mechanization, and different natural techniques and organizational conditions in different coal fields and mining regions. As a result, 43 different zone prices have been arrived at that vary by as much as 80 percent. For a long time, China has instituted virtually uniform prices for coal. In a country as large as China in which the condition of resources varies very greatly and large disparities in costs exist, uniform prices must inevitably result in contradictions; consequently, once zone pricing has been adopted, either mining bureaus or goods and materials units must make

final settlement of accounts at uniform prices, and consumers throughout the country will still pay the same price. This problem genuinely requires solution, but just which method should be adopted requires further investigation and study.

C. The third problem is one of price ratios for coal and other energy.

Coal, petroleum and electric power are the main products of energy industries. In terms of average profit rates, the price of coal is much lower than for petroleum or electric power. According to 1978 statistics, the cost-to-profit ratio for coal was 10 percent, and the capital-to-profit ratio was 3.9 percent, while the ratios for petroleum were 96.2 percent and 82.8 percent, respectively, and for electric power 79.6 percent and 24.3 percent, respectively. Comparison of heat output and prices of coal and petroleum also shows the price of coal to be relatively low. Heat output for raw coal is 5 million kilocalories per ton, which converts to 0.714 tons of standard fuel. Heat output of petroleum is 10 million kilocalories per ton, which converts to 1.428 tons of standard fuel. The ratio between the two is 1:2. But the prevailing price for raw coal is 22.10 yuan per ton, but 100 yuan per ton for petroleum. The ratio between the two is 1:4.5. This situation is attributable to the lack of development of China's petroleum industry during the period immediately following liberation, large consumption of synthetic petroleum production and high costs. From the outset, we priced synthetic and natural petroleum differently and, later on, the price of petroleum was raised in order to encourage petroleum production. By the late 1960's, and particularly during the 1970's, petroleum output increased and costs declined tremendously. In 1975, crude oil production costs were only 62.39 percent of the 1957 figure. But why were prices not changed? This was because of the international energy crisis. China also had a shortage of supply, so not only was it not possible to reduce prices, but high prices had to be used to curtail consumption.

Some comrades use production price theories to advocate a rise in the price of coal to that of petroleum in order to attain the goal of prices being in accord with value. We consider this a matter bearing on energy policy. Petroleum and coal are not only energy, but also important raw materials for chemical industry products. China has plentiful coal resources that are easier to extract than petroleum; therefore, whether to burn petroleum as a fuel or to use most of it as a raw material for the chemical industry is an extraordinarily important policy decision. In 1980, China burned 40 million tons of petroleum, or 40 percent of gross output, for fuel. By burning coal instead of petroleum, a substantial amount of petroleum can be saved annually and is worthwhile economically. Nowadays the use of petroleum as a fuel in all the world's capitalist countries has become an economic system that exerts a drag on economic development. We cannot take this well-worn road. We must create conditions for changing from the burning of petroleum to the burning of coal. China's proven coal resources are more plentiful than its petroleum resources. In terms of the economy as a whole, it is more advantageous to burn coal than petroleum because it is necessary to devise means for saving petroleum for use as a chemical industry raw material, make widespread use of coal resources, and make coal China's major source of energy.

If such an energy policy is adopted, insisting that the price of coal be raised to that of petroleum not only will result in goods price fluctuations, but will also be disadvantageous for carrying out energy policies. In order to encourage less burning of petroleum and more burning of coal, the price of petroleum must be higher than the price of coal. Consequently, even if small readjustments are made in the price of coal, no decrease should be made in the price of petroleum. Enterprises must feel that it is more advantageous to burn coal than to burn petroleum, and excessive petroleum industry profits may be regulated by an increase in tax rates. Price ratios among energy products, like those among economic sectors, cannot be based solely on readjustment of profit rates but must proceed from consideration of what is beneficial for the planned economy.

D. The fourth problem is conscientious determination of price on the basis of quality.

Determination of price on the basis of quality is to use standard prices as a basis for setting reasonable differential prices for different kinds of coal (anthracite coal, coking coal, lignite), different grades of coal (raw coal, clean coal, washed coal, dust coal), and quality standards (ash content, moisture content, sulfur content, submarginal rate [7098 0007 3764], and rock content rate). Determination of prices on this basis has as its goal the encouragement of coal mines to strive to upgrade coal quality and to produce more and better coal, as well as to encourage coal users to use existing coal resources in a sensible way and reduce waste. In some provinces and regions today, there is a trend toward a rise in the ash content, a lowering of raw coal quality and a fall in average sale prices. Hubei Province is one such example. (See Table 11)

Table 11. Changes in Ash Content and Average Sale Price of Coal Over the Years in Hubei Province

Year	Raw Coal Ash Content (%)	Average Price of Raw Coal (yuan per Ton)
1966	24.43	17.58
1971	28.08	15.63
1975	30.8	14.23
1978	30.41	14.91
1980	30.20	19.33*

* The 1980 rise in average sale price resulted from a general rise in prices.

Naturally enterprises have seen a fall in profits or have even incurred losses as a result of the worsening of coal quality and a drop in sale prices. The loss situation has increased. This has acted as a warning to enterprises to determine prices on the basis of quality. Enterprises should heed this warning by diligently taking a firm grip on quality control to turn the loss situation around. However, some people have not faced up to the issue of quality control. Instead they simply fall back on a rise in the degree of mechanization, an increase in the amount of rock in coal, the deepening of

mine pits, deterioration in the geological condition of coal resources, and complaints about prices being out of line with costs, completely ignoring the role of subjective activity in improving administration and management to improve coal quality. If a rise in the extent of mechanization brings about a decline in quality and a decline in economic results, then mechanization has no reason for being and is of no use. The matter of deepening the mine pits has been previously discussed, and the problem can be solved through continuity in working new and old mines without need for a general fall in quality. An all-round lowering of quality means that no firm grip has been taken on quality-control work. It shows that the principle of determining price on the basis of quality must be carried out thoroughly, and that there positively can be no increases in prices to cover up enterprise losses of this kind. Yet another problem is that from the technical and economic angle, the amount of heat generated should be a criterion of coal quality. Use of coal as a source of power depends on the amount of heat energy derived from burning it as a fuel. Consequently, as far as the use of coal as a source of fuel energy is concerned, in addition to all other quality criteria such as ash content, water content, sulfur content and rock content, the amount of heat generated is a criterion of greater importance than all others. It is the basis for evaluating coal quality and for calculating coal consumption and the heat efficiency rate as well as for improving coal-burning methods and improving the coal utilization rate. Generally speaking, when other criteria are low and coal quality is also correspondingly good, still one cannot guarantee high heat generation. However, the amount of heat generation has a direct bearing on the extent of economic results. For this reason, major economically advanced countries such as the United States use the amount of heat generation as a major basis for determining coal quality and for setting coal prices; other criteria are used only for reference. The method used for judging coal quality in China today does not take account of this factor. It should be studied and improved.

In view of China's circumstances, increase in the country's energy output during the near term will depend primarily on coal. Recently, leading comrades in the State Council pointed out the need to accelerate a buildup of the coal industry, for which we believe the following several actions should be taken: (1) A firm grip on technical improvement of old mines for further improvement in mining, transportation, ventilation and drainage equipment, further improvement of productivity, further coordination of the proportional relationship between strip mining and digging, and improvements in safety. (2) Emphasis on development of coal mining mechanization and an increase in the amount of mechanization. In view of the quality of the country's coal seams and the country's financial resources, emphasis for the near term should be on development of high-quality exploratory mining and suitable development of general mining with a further increase in the degree of mechanization. (3) Good performance in the pattern of buildup of the coal industry using a combination of large, medium and small mines and giving energetic support to local coal mines. (4) Development of coal industry washing and grading work, and good performance in overall coal utilization. If these technical and economic policies are carried out, they will definitely increase economic results from coal and set the stage for a lowering of production costs and a stabilization of coal prices.

4. Pricing of Agricultural Means of Production

The modernization of socialist agriculture is characterized by mechanization, electrification, use of chemicals, use of science and socialization. While consolidating and developing the system of socialist ownership, there must be gradual technical improvement of agriculture, use of modern agricultural science, and use of modern material and technical facilities to equip agriculture in order to raise the agricultural productivity rate and yields per unit of area. This is a basic task in the modernization of agriculture. Therefore, in the process of modernizing agriculture, the state must exert major efforts in development of all industries on which agriculture relies, in increasing supplies of the means of agricultural production such as all kinds of farm machines, chemical fertilizers, pesticides, and plastics used in agriculture to satisfy agriculture's needs.

Since the founding of the country, growth of the means of agricultural production and rise in agricultural modernization have been very rapid.

A. Table 12 shows the status of major farm machines in being.

Table 12. Numbers of Farm Machines in Being at the End of Various Years

	Machine	Unit	1952	1957	1965	1975	1979
1)	农业机械总动力	2万马力	25	165	1,494	10,168	18,191
3)	大中型拖拉机	混合台	1,307	14,674	72,599	344,518	666,825
5)	手扶拖拉机	万6台			0.4	58.9	167.1
7)	大中型机引农具	万6台			25.9	90.8	131.3
8)	联合收割机	9台	284	1,789	6,704	12,551	23,026
10)	机动脱粒机	万6台			11.4	155.3	232.8
11)	灌溉机械	2万马力	12.8	56.4	907.4	4,866.6	7,122.1
12)	碾米机、磨面机	万6台				217.7	291.2
13)	轧花机	万6台				30.2	20.7
14)	榨油机	万6台				16.7	21.6
15)	载重汽车	9辆		4,084	11,063	39,585	97,105
16)	畜力胶轮大车	万6辆			133.5	246.4	247.7
17)	手推胶轮车	万6辆			875.7	2,361.1	3,262.4
18)	渔业机动船	2万马力		10.3	64.0	213.6	312.9

Key:

- 1) Total horsepower of farm machines
- 2) 10,000 horsepower
- 3) Large and medium tractors
- 4) Mixed
- 5) Hand tractors
- 6) 10,000 units
- 7) Large and medium tractor-drawn farm implements
- 8) Harvesting combines
- 9) Units
- 10) Machine-powered threshing machines

[Key continued on following page]

- 11) Irrigation machines
- 12) Rice-milling and wheat flour-milling machines
- 13) Cotton gins
- 14) Oil-crushing machines
- 15) Trucks
- 16) Animal-drawn rubber-tired wagons
- 17) Rubber-tired pushcarts
- 18) Machine-powered fishing boats

B. The status of increase in agricultural mechanization is shown in Table 13.

Table 13. Modernization of Agriculture

1)	项 目	单 位	1952	1957	1965	1975	1979
3)	当年实际机耕面积	10,000公顷	13.6	263.6	1,557.9	3,320.3	4,222.9
5)	机耕面积占耕地面积	%	0.1	2.4	15.0	33.3	42.4
6)	灌溉面积	10,000公顷	1,995.9	2,733.9	3,305.5	4,328.4	4,500.3
7)	灌溉面积占耕地面积	%	18.5	24.4	31.9	43.4	45.2
8)	机电灌溉面积	10,000公顷	31.7	120.2	809.3	2,288.9	2,532.1
9)	机电灌溉占灌溉面积	%	1.6	4.4	24.5	52.9	56.8
10)	化肥施用量	10,000吨	7.8	37.3	194.2	563.9	1,086.3
12)	每公顷耕地施化肥	公斤	0.7	3.3	18.7	53.8	109.2
14)	农村小型水电站	15个	98	544		68,158	83,224
16)	发电能力	10,000千瓦	0.8	2.0		144.4	276.8
18)	农村用电量	10亿度	0.5	1.4	37.1	183.1	282.7
20)	每公顷耕地用电量	21度		1.3	35.8	183.6	284.1

22) 说明:

资料来源:《1981年中国经济年鉴》Ⅴ,第13页。

Key:

- 1) Particulars
- 2) Units
- 3) Actual machine-plowed area in given years
- 4) 10,000 hectares
- 5) Machine-plowed area as a percentage of total plowed area
- 6) Irrigated area
- 7) Irrigated area as a percentage of plowed area
- 8) Electro-mechanically irrigated area
- 9) Electro-mechanically irrigated area as a percentage of irrigated area
- 10) Amount of chemical fertilizer used
- 11) 10,000 tons
- 12) Amount of chemical fertilizer per hectare of cultivated land
- 13) Kilograms
- 14) Small rural hydropower stations
- 15) Units
- 16) Power generating capacity
- 17) 10,000 kW

[Key continued on following page]

- 18) Rural electricity use
- 19) 100 million KWH
- 20) Amount of electricity use per hectare of cultivated land
- 21) KWH
- 22) Source of data: "China Economic Yearbook, 1981," VI, p 13.

The extent to which prices of the agricultural means of production are equitable is closely related to economic results from agricultural mechanization and modernization. Ever since the 1960's, prices of the means of agricultural production have declined very greatly in China. Statistics show 10 drops in the price of farm machines between 1961 and 1978, 6 drops in the price of chemical fertilizer, 9 drops in the price of pesticides, and 3 drops in the price of diesel fuel and plastic sheeting used in farming, the maximum drop having been 88 percent. This shows that state support for agriculture not only increased procurement prices paid for agricultural products but also provided support for means of agricultural production prices.

Prices of agricultural means of production have a bearing on the amount of funds peasants have and on how many modern agricultural means of production they are able to buy. Setting prices somewhat low for the agricultural means of production is one form of financial support to the collective economy that the state provides. Of particular importance is that China's agricultural production was formerly carried out using hand tools and animal power. Consequently, practice of a low-price policy for the agricultural means of production has benefited communes and brigades in relying on their own resources to change production methods. Prices for modern agricultural means of production have a bearing on the progress of agricultural modernization. Generally speaking, setting prices of the means of agricultural production somewhat low is advantageous in promoting the development of agricultural modernization. Though this may somewhat reduce national financial accumulation, nevertheless, as agricultural modernization and agricultural production develop, an increase in the country's financial accumulations will be benefited ultimately. Were prices to be pegged high and use of them result in increased output with no increased earnings, the peasants would feel they would have been better off for not having used them, and this would obviously be unfavorable for agricultural modernization.

Pricing of the means of agricultural production to guarantee peasants increased output and increased earnings from their use must be limited to normal use situations. Specific analysis must be done as to whether the use of modern means of agricultural production will increase earnings in situations in which agricultural production is affected by natural conditions and whether work is done well or poorly. There are normally three different situations as follows:

One situation is the use of electric power and machinery in agricultural production to take the place of manpower and animal power. For communes and brigades this means increased expenditures with no increase in earnings. However, it frees work forces, thereby providing conditions for intensive farming, increasing yields per unit of area, development of sideline production, going in big for economic diversification, or expanding the farming

area. It is able to increase earnings per collective unit in agriculture. Consequently, numerous communes and brigades, particularly those having operations of numerous kinds in which the work force is well deployed, are happy to use machines for farming and feel their use is worthwhile. This is because once the organic structure has been improved, it is possible to raise the labor productivity rate and to save the use of manpower for use in economic diversification. On the other hand, some communes and brigades that have not gone in for development of economic diversification or that have done a poor job of it cannot find outlets for the manpower saved as a result of using machines. Thus, their use of machines must inevitably result in increased expenditures and a reduction in peasant earnings. Even if prices and fees were to be lowered, the problem of being unhappy about using machines would not be solved. This is not a problem caused by prices of the means of agricultural production, nor is it a problem that a slight lowering of prices would solve. It is a problem of finding work for the labor force to do once machines have taken its place. Basically, it is necessary to adhere to Chairman Mao's teachings about marching ahead in breadth and in depth into the natural world, and to proceed from an expansion of the scale of production to carry out intensive operations and launch economic diversification as means of finding jobs for the displaced labor force.

Another situation is the need for certain conditions in order to use modern means of agricultural production. For example, it is currently possible to increase grain output by 2 to 3 jin per jin of ammonium sulfate applied (provided it is used in combination with phosphate and potash), and this both increases output and commune and brigade earnings. However, some places do not want to use chemical fertilizer, not because of its price but because water conservancy conditions are poor. They have to depend on the skies for the food they eat, and yields cannot be guaranteed, so peasants dare not use much chemical fertilizer. This is also not a problem that the lowering of prices can solve. Water conservancy conditions must be improved in order to set the stage for the use of chemical fertilizers.

Yet another situation is that modern means of agricultural production must be used in a rational way if full effectiveness is to be derived from them. Results are poor in some places today as a result of inept management and improper use of equipment. This shows up in the following ways in the use of farm machines: (1) Machines are available, but no one looks after them; 3 percent of the country's communes have no farm machine management organization. (2) Machines are available but cannot be operated or repaired; today one-third of the machine operators in the country have never had formal training. Many only know how to drive machines, but do not know how to adjust or maintain them or to use them in the fields. (3) Machines are not used properly; much fuel is consumed, and once they break down, there is no way to repair them. In short, a substantial portion of the farm machinery in the hands of communes and brigades is not being used to the full, and peasants are not deriving from them the economic results that they should. Furthermore, fertilization is not done properly. Fertilizer is not applied according to soil needs, so there is waste and increased expense. Formerly, we were concerned solely about increasing output without regard for economic effectiveness. From start to finish, mechanization was done and fertilizer applied without consideration of the peasants' real needs, and economic results were

very poor. In southern Jiangsu, for example, some places have already taken the ruinous Western road, applying fertilizer at the rate of 368 jin per mu. As a result, yields have increased but not earnings, and numerous high-yield but poor brigades have appeared. Were it not for industrial sideline occupations, agricultural income would be lower than it was in 1956. Such a money-losing road in agriculture cannot be kept up. These kinds of problems are not caused by prices for agricultural means of production nor can they be solved by lowering prices for the agricultural means of production. Their solution must depend on correcting ill-advised guidance and on scientific farming.

Lowering of prices for the means of agricultural production is one method of promoting agricultural production. However, it must be realized that there is a definite limit to the application of price levers to support agriculture. This is because price support is carried out concomitant with buying and selling of commodities, the one buying the most being able to gain the most advantage. However, development of agricultural production is very uneven in China today. For example, some places already use chemical fertilizer at a rate of between 50 and 60 jin or even several hundred jin per mu, while other places rarely use chemical fertilizer because of poor water conservancy conditions. Many communes and brigades have gained very great advantages from the use of electric power for drainage and irrigation and for processing of agricultural and sideline products using electrically powered machinery, while other communes and brigades located far away from electric power grids lack conditions for the use of electric power. Some production teams have large public accumulations and have the power to buy modern farm machines while others have small public accumulations and find it difficult to buy farm machines. A similar situation in the buying of small farm machines and implements exists among contracting households since institution of production responsibility systems. Thus, a lowering of prices for the means of agricultural production means greater advantages for those communes and brigades or households contracting production that buy more and use more of them. However, communes and brigades or households contracting production that lack the money to buy them or the conditions to use them will derive no advantage from a lowering of prices. In addition, price supports will certainly buttress the strength of communes and brigades or of individual commune members to carry out technical agricultural improvements; however, operation of some projects of decisive importance for agricultural modernization, such as construction of large and medium water conservancy projects and rural electric power grids, are not problems that price supports can solve. This all shows that the application of price levers must be coordinated with the use of financial and credit levers, the lowering of prices for agricultural means of production being made a part of a unified planning strategy for support to agriculture.

In addition, not only must consideration be given to peasant purchasing power and what helps increase agricultural yields and agricultural earnings when lowering prices for agricultural means of production, but attention must also be paid to the economic accounting of enterprises that produce the means of agricultural production so as to stir their enthusiasm. The following three contradictions exist today in the pricing of the means of agricultural production:

A. Some prices remain overly high in terms of agricultural purchasing power. For example, comparison of machine transplanting and hand transplanting of rice seedlings at Xingang Production Brigade, Wangji Commune in Xinzhou County, Hubei Province showed a saving of 7,660 man-days at an expenditure of 12,000 yuan or an average of 1.57 yuan per every man-day saved. In that production brigade, a workday has a value of only 0.70 to 0.80 yuan, so the loss from using machines would be twice the gain from not using them. Jiangsu Province has reported that plastic sheeting would cost between 300 and 400 jin of paddy or between 20 and 30 jin of cotton per mu of open field. The peasants say, "Plastic for farming is fine as can be; it's just that peasants can't stand the fee." Some peasants also say, "A boatload of paddy or four bales of cotton for a roll of flimsy plastic," as a way of showing that the price of plastic used in farming is too expensive. Conditions should be created for a gradual lowering of prices of products such as these where the differential price is not right.

B. Modernization of agriculture requires rapid development of industries on which agriculture relies; however, overly low prices for the agricultural means of production, too narrow profit margins, or even losses, are likewise bad for the development of industries on which agriculture depends. For example, prices of farm machinery products were again lowered by 13 percent in 1978, but during that same year, 28.8 percent of farm machinery industries showed losses. The Heilongjiang Farm Machinery Plant has been a key farm machinery plant ever since the founding of the country. Its administration and management has been better than most, and it has earned silver awards for product quality. However, since the factory price of its major products, five-shared plows, was set too low, this 3,000-man enterprise showed a profit of only several thousand yuan from a year's arduous labor, and it did not even issue a bonus. For some products, there was an inversion between production and market price. One example was driving wheels weighing 60 Kg apiece, whose coordinated price was 1.05 yuan per Kg. More than 60 yuan had to be paid for each one entering the plant, but upon leaving the plant after processing for use in agricultural machines, they sold for only 45 yuan, a loss of 15 yuan per wheel, not even counting labor. As a result, no one wanted to produce them. Two prices were instituted for some products, a high price for those used in industry and a low price for those used in agriculture. For the same fuel pump assembly manufactured by farm machinery plants and civilian machinery plants, the farm machinery plant set a price of 310 yuan while the civilian machinery plant set a price of 600 yuan, which was 83.54 percent higher than the farm machinery plant price. Another example was the Model 55 Tieniu tractor so well liked by the peasants, each one of which sold for 12,000 yuan. If the price of the hydraulic pressure suspension unit sold to the Beijing construction machinery plant is deducted, each tractor sold for only 11,000 yuan. But when the plant refitted it for sale as a construction machine, namely the PYY-55 loader, which is popularly termed both ends busy, the factory price became 48,000 yuan per tractor. Such a gap is obviously inequitable and bad for development of the agricultural machine industry.

C. Profits are very large for some large enterprises that produce agricultural means of production products, and some can lower prices. But profits

are small for medium and small enterprises, or they may even incur losses, and they most certainly cannot lower prices. Two pesticide plants in Jiading County, Shanghai Municipality, for example, are fairly large, and despite a 5 percent lowering of prices between 1977 and 1979, their cost-to-profit ratio went from 12.6 to 17.9 percent, and from 12.8 to 18.8 percent, respectively. Meanwhile, other medium and small plants showed very little profit or even losses.

Planning of prices for the means of agricultural production is limited to a very large extent by the foregoing three contradictions. Formerly we used the "cutting of chives" method for the agricultural means of production, lowering the price each time a product showed a little growth in profit. Naturally, peasants benefited from the lowering of prices. But such methods could not encourage enterprises or the broad masses of staff members and workers to develop production or stimulate enthusiasm for lowering costs. In the end, this practice was also bad for support to agriculture and the modernization of agriculture. Formerly the state also gave some farm machinery plants subsidies for losses resulting from policies. This method was used up until the time of reform of the economic system when everybody ate out of a large common pot and one could not discern numerous bad practices. Ever since expansion of enterprise self-determination and institution of profit withholdings, problems have gradually come to the fore. A survey by authorities concerned showed that more than 80 percent of the plants that incurred losses were plants with losses resulting from policies. These enterprises carried a burden of losses, so no matter how good their administration and management, they could not be evaluated as advanced enterprises; they had no way of instituting withholdings of profits, and they were not even qualified to request becoming pilot projects for expansion of enterprise self-determination.

We believe that the various foregoing contradictions result from mixing together price policies with policies for the support of agriculture. Price policies cannot contravene the laws of value. Insistence on holding down prices of the means of agricultural production places the industrial enterprises that produce the means of agricultural production in a disadvantageous position, and naturally this will dampen the enthusiasm for production of enterprises and of staff members and workers, and end up being bad for agriculture. Can we, then, institute low-price principles for the means of agricultural production without hurting the interests of industrial enterprises? We believe we can. This means either reducing taxes on these goods or exempting them from taxation. The extent of price reduction will also be limited only to the tax revenues directly borne by the national treasury, enterprises thereby maintaining definite profits in the same way as the industrial sector in general. If certain agricultural means of production remain high priced after reduction or exemption from taxation as a result of high industrial costs, such as the previously mentioned plastic sheeting used in agriculture, then government financial assistance to users would be appropriate.

Since past methods of subsidizing industrial losses could not be seen by the peasants, and since they shifted the burden of support to industrial

enterprises and hurt industry without any actual shift taking place, the result was still government financial subsidization. One might say it was a case of no one deriving any benefit from a three-sided deal.

In the production and sale of farm machines and other means of agricultural production, formerly there existed a general situation of quality not meeting standards, varieties of products not satisfying needs, farm machinery not being integrated, and inability to make repairs when breakdowns occurred that were traps for agriculture. This situation was very much related to unfair prices for agricultural means of production.

For this reason, equitable readjustments of the prices of agricultural means of production has a great deal to do with promoting reorganization of the farm machinery industry and bringing about interchangeability, standardization, seriation and genuine achievement of good quality, goods that satisfy needs, full integration of equipment, and ability to repair broken equipment. Development of chemical fertilizer should be in the direction of high concentration, compounding, pelletization and long acting. Pesticides, plastic mulch, and herbicides should develop toward superior quality, high effectiveness, low toxicity, and low cost so that they are genuinely effective. Upgrading of the quality of the agricultural means of production can bring immediate economic benefits for the peasants, and can play a role that is even greater than price reductions. Only by achieving this will it be possible for products to achieve peasant acceptance and gain genuine results from support to agriculture.

5. Pricing of Manufactured Products for Daily Use

Industrial manufactures used in daily life include textiles, knitgoods, sundries, stationery, and all kinds of hardware, telecommunications equipment, and chemical industry products that are means of consumption used in daily life that are indispensable.

The goal of socialist production is satisfaction of the masses' steadily increasing material and cultural needs. Marx said, "A living being needs a certain amount of the means of livelihood to maintain itself."³ "Every day means new consumption of some of the means of livelihood, such as food, fuel, etc., so they must be replenished daily. Other means of livelihood, such as clothing, furniture, etc., may be used for a fairly long time, therefore, they need replenishing only after a fairly long period of time. Some goods have to be bought or paid for every day, and some goods have to be bought or paid for every week, while some goods have to be bought or paid for every quarter, and so forth."⁴ People's material and cultural lives are constantly inseparable from the consumption and replenishment of the means of livelihood. This is the simplest truth.

Except for what the peasants provide themselves, an overwhelming amount of the means of livelihood that people consume are purchased from markets,

³ "Collected Works of Marx and Engels," Vol 23, p 194.

⁴ Ibid , p 195.

mostly from plan markets. The state purchases both agricultural products and industrial manufactures used in daily life in order to supply the masses in the cities and the countryside. The means of livelihood may be divided into the four broad categories of food, clothing, daily necessities and fuel. Except for food, most of which comes directly from agriculture, the other three categories must be provided by industry. Inasmuch as the Chinese people's standard of living is still not very high today, about 60 percent of mass expenditures for consumption are for food, about 40 percent being spent for the other three categories. As agricultural production develops and urban standards of living rise, the structure of consumption will constantly change, and the proportion spent on clothing and daily necessities will rise. The places of industrial manufactures among the means of people's livelihood will become increasingly important.

Industrial manufactures used in daily life are inextricably bound up with the people's standard of living, and thus have extremely strong policy significance. Ours is a socialist country, but it is a developing socialist country that is not flush with the means of livelihood and that is still unable to assure a very high level of consumption for the broad masses of people. Nevertheless, it is the nature of socialist society to require that we not only assure the basic needs of the people's livelihood, but that we assure that there also be steady improvement in development of production. Therefore, our retail price policies for industrial manufactures used in daily life also may not contravene this principle.

Industrial manufactures used in daily life are manufactured by a myriad of production enterprises. Their factory price determines whether the enterprise is able to make up for its expenditure of labor and whether it is able to gain reasonable material earnings for distribution. Consequently, it is necessary to establish equitable price parity relationships among products. Only when price parities are reasonable will enterprises have enthusiasm for production and planned production be conducted smoothly. There is also an equitable price parity issue in the retail price of industrial manufactures used in daily life, and it functions to regulate supply and demand as well as to guide consumption. Therefore, study of prices of industrial manufactures used in daily life entails not only consideration of how the needs of people's lives can be assured, but also requires consideration of a genuinely equitable structure of consumption, and the setting of equitable price parity relationships to promote production and regulate supply and demand.

The state has proceeded from guaranteeing the people's basic needs to set up a stable price policy with regard to the retail price of industrial manufactures used in daily life, and it has scored very great achievements. Taking 100 as the 1950 overall index of the rural retail price of industrial manufactures, the index was 109.7 in 1952, 112.1 in 1957, 118.4 in 1965, 109.6 in 1975, and 109.9 in 1979. Clearly the 1979 rural sale price of industrial manufactures virtually maintained the 1952 price level. Nationally the retail price of all kinds of industrial goods was also basically stable. (See Table 14)

Table 14. Retail Sale List Price Index for Industrial Manufactures
by Category
(1950 = 100)

1) 项 目	1952	1957	1965	1975	1979
2) 衣着类	111.9	111.7	113.6	112.7	112.3
3) 日用品类	118.2	116.2	130.4	126.2	127.1
4) 文化用品类	117.1	96.2	97.6	88.5	92.1
5) 医药类	122.9	114.8	99.3	63.5	65.4
6) 燃料类	135.9	150.3	160.1	154.0	154.4
7) 烟酒茶	111.8	127.0	152.3	151.3	152.5

Key:

- 1) Item
- 2) Clothing
- 3) Daily necessities
- 4) Writing materials
- 5) Medicines
- 6) Fuel
- 7) Tobacco and alcoholic beverages

The basic stability of retail prices of industrial manufactures was achieved in the midst of upward and downward readjustments in all categories of industrial consumer goods. Readjustment of prices of all categories of industrial consumer goods was an exemplification of state policies.

Clothing is second only to food in importance in the people's lives, so assuring price stability for clothing is extremely necessary. The principal raw material used in textiles is cotton, and the rise in the state procurement price of cotton (taking 1950 as 100, was 113.3 in 1952, and 162.4 in 1979) directly affects costs and prices of textile products. In order to stabilize the prices of textiles, the state has instituted subsidization of commercial links, and it does not add the cost to large industrial enterprises of stocking merchandise in order to stabilize the factory prices of textiles. In 1981, subsidization of cotton prices cost a total of more than 3.5 billion yuan. At the same time, the state has made major efforts to develop chemical fiber industries, and as costs of making chemical fibers have declined, prices for chemical fiber textiles have declined proportionately. As a result of the adoption of these measures, the price index for clothing in 1979 had risen only 0.4 percent since 1952.

Relatively speaking, of all the industrial manufactures used in daily life, fuel has been the one whose price has risen most. This is because the mine price of coal has historically been overly low and coal mining enterprise's losses have been too great. In order to give impetus to coal production, the state has had to raise the mine price of coal several times. In 1965 when the task of readjusting the national economy was substantially complete and after market prices had become normal once again, since it was recognized that

the market price of coal used in the major coal-consumption areas of north China and northeast China was too low and adversely affected commercial operations, it was decided to raise somewhat the market sale price of coal in these areas. In 1979, the mine price of coal was raised again. In order to keep the market steady, no changes were made in the retail price of coal. Therefore, the coal price index in 1979 was lower than in 1965. For this reason, the state instituted price subsidization of commercial links, and in 1981, these subsidies amounted to more than 700 million yuan.

Medicine bears on the health and well-being of the people. In the old society, the broad masses of working people could not afford medicine and could only suffer lingering illnesses in agony. Following founding of the nation, the state adhered to the principle of service in maintaining the health of the people and gradual making of a miniscule profit. In the development of production, as costs fell, prices of medicines steadily declined. There were eight major lowerings of prices. At the present time, the sale price of chemical pharmaceuticals is more than 80 percent lower than during the period immediately following liberation, and the sale price of Chinese medicinal herbs has fallen by more than 40 percent. Medical apparatus and instruments have also dropped in price several times. Planned parenthood medicines and devices and some medicines for the prevention and treatment of local illnesses are provided free of charge, thereby reducing the economic burdens of the broad masses.

In order to develop education and cultural endeavors, the state has also gradually lowered prices of writing materials.

Stability of retail prices of industrial manufactures used in daily life in the country and the decline in price of some products is a major counterweight in stabilizing retail prices of all consumer goods. As a result of the steady rise in procurement prices paid for agricultural products following founding of the nation, retail prices of certain agricultural products had to rise as well, and this was the major reason for the annual 1.17 percent rise in the country's overall consumer prices. It was precisely because of the stable prices of industrial manufactures that pressure on price rises for consumer goods as a whole was moderated. The overall trend of procurement prices for farm products is toward no lowering, and there may be some readjustments and increases. For this reason, stability of overall consumer goods prices will depend on a decline in prices of industrial manufactures used in daily life.

Can prices of industrial consumer goods remain steady and decline? Our answer is affirmative.

Quite a few people look only at the difficulty in lowering of prices occasioned by the rise in prices of raw materials and the rise in production costs for light industrial manufactures that use agricultural products as raw materials. They ignore the steady increase in the percentage of light industrial products that use industrial raw materials in production. The potential is very great in this regard. Changes in the percentage of agricultural products used as raw materials and the percentage of industrial products used

as raw materials in the output value of light industry is shown below (using a light industrial output value of 100):

	1952	1957	1965	1975	1980
Percentage of agricultural products used as raw materials	87.5	81.6	71.7	70.1	68.5
Percentage of industrial products used as raw materials	12.5	18.4	28.3	29.9	31.5

The above figures show the following: There has been very great growth in the percentage of light industrial manufactures using industrial goods as raw materials. In today's use of chemical fibers to make clothing, thanks to technical advances and expansion of production, costs have declined tremendously, setting the stage for a decline in prices. In November 1981, the retail price of all grades of polyester and cotton fabrics were readjusted downward. Nationally, the average decrease in price was about 0.66 yuan per meter. The potential still seems to be very great in this regard. In recent years, rapid development has also taken place in production of household electrical appliances and durable consumer goods. The retail price of stand-type electric fans, for example, has dropped from 130 to about 80 yuan, and the price of a 160-liter electric refrigerator has fallen from 1,200 to 700-odd yuan. In short, the more raw materials for the means of consumption used in daily life that are derived from industry itself, the more new products are provided. The more new products provided, the greater the potential for lowering costs, and the greater the possibilities for lowering costs. This is a basic requirement for our stable prices.

Naturally, we should also realize that for some light industrial products production costs have risen as a result of price rises for certain agricultural products and the effects of price readjustments for certain means of production, such as iron and coal, as a result of which the manufacturing enterprises have made no profit or have even incurred losses. This may, in turn, force a rise in prices for some light industrial products.

Formerly, iron woks were produced at a loss. In 1979, the price of pig iron was increased 65 yuan per ton, and the price of coal was increased 5 yuan per ton. As a result, costs of raw materials alone for making iron woks increased 70 yuan, and industrial plants lost more than 120 yuan per ton of iron woks produced. As a result of dramatic increases in losses, the Shanghai Iron Wok Plant diverted some of its raw materials to the manufacture of high-profit bathtubs. The 1981 commercial plan called for production of 800,000 iron woks, but actually only 300,000 were produced, a 63 percent shortfall in output. As another example, for the past several years the Shanghai Municipal Handicraft Bureau system had 20 plants devoted exclusively to the manufacture of bambooware used by the Shanghai populace. However, following a rise in the price of moso bamboo, they shifted production one after another to articles used by industry, and this is no isolated example. A

survey carried out during 1979 at Neijiang City in Sichuan Province showed a 6.2 percent reduction in output and a 21 percent halt in output of small products as a result of losses, which hurt market supply.

As a result of the institution of negotiated prices during the past several years and a failure of managerial work to keep pace, some loss of control has resulted. Today, an increasingly large proportion of materials allocated under the state plan, including principal raw and processed materials such as steel, lumber, agricultural and sideline raw materials, leather and chemical industry materials, plus fuel, are purchased at negotiated prices. Negotiated prices are generally more than double plan prices. For example, after a rise in the price of cowhides, the price rose from 0.75 yuan per jin to a negotiated price of from 1.20 to 1.30 yuan per jin. Thus, a hidden rise in prices occurred in the production of leather shoes. Where the list price of leather shoes remained unchanged, the quality of the leather used to make the shoes declined, third-grade leather being used as second-grade leather and second-grade leather being used as prime-grade leather, etc.

In order to assure implementation of a stable price policy, we believe that future price work will have to be handled on a case-by-case basis as circumstances require.

A. Readjustment of prices of the means of production will have to be done through consideration of the prices of consumer goods used in daily life. Whenever compensation of social production expenses (including a certain profit) is affected, factory prices will have to be readjusted if businesses are to make a profit. If businesses cannot earn a profit, then regulation will have to be carried out through reduction or remission of taxes in an effort to regulate retail sales prices. Only when businesses cannot make a profit and are unable to offset industrial costs even with reduction or remission of taxes should retail prices be increased.

B. Once costs have been reduced as a result of large-scale production of all industrial manufactures used in daily life for which industrial goods are used as raw materials, the principle of small profits but quick turnover should be followed, and depending on the market supply and demand situation, there should be a planned lowering of factory prices and retail prices.

C. Inasmuch as varieties of Category III small products are numerous, changes great, output value small and profits low, in principle either a free price or a floating price with a set maximum ceiling should be instituted under plan guidance so as to help spur production and circulation, and to accommodate the people. In order to prevent too great a fluctuation of prices in those necessities bearing on the people's livelihood, management of certain kinds of products should be stipulated.

The foregoing has discussed the problem of stable prices for industrial manufactures used in daily life. Yet another aspect of the pricing of industrial manufactures used in daily life is the problem of establishing equitable price parity relationships. Price ratios for industrial manufactures used in daily life means the ratio among various industrial manufactures

used in daily life in the same markets during the same period. Broadly speaking, it includes the proportional prices brought about for different qualities of the same industrial manufactures, i.e., quality price ratios.

Let us first discuss the problem of price ratios among various industrial manufactures used in daily life.

As with other commodities, equitable price ratios for industrial manufactures used in daily life can stimulate the planned proportional development of industrial production, help guide consumption, promote balance between supply and demand, and bring about state planned supply of commodities. When we feel prices to be unreasonable in economic life, what we really mean is that price ratios for commodities are inequitable.

The complex price ratios of current life have come about gradually through exchanges over a long period of time, and generally reflect mutually linked and mutually restrictive relationships among various trades and industries. So long as the price of a given industrial item maintains an equitable proportion with prices of industrial manufactures with which it is closely related, it can indirectly maintain a proper proportional relationship with the price of other industrial manufactures. For this reason, when plan prices are formulated and readjusted, there is no need to replace them with new ones; all that is necessary is to focus on readjustment price ratios for industrial manufactures for which there are contradictions among production, supply, and marketing.

The following price ratio relationships should be dealt with among industrial products used in daily life:

A. Price ratios for products of the same kind. By products of the same kind is meant products for which essentially the same raw materials and the same technical operations have been used to produce a similar value. An equitable price ratio must be established for products of the same kind that vary in varieties, model numbers and specifications. In arriving at price ratios for these kinds of goods, it is necessary to take into consideration consumption of materials to produce them, production costs and market supply. To do otherwise will be bad for the production and circulation of goods. For example, production of drawn glass tumblers and extruded glass tumblers in Shanghai was adversely affected by inequitable price ratios. The factory price for drawn glass tumblers (No 10 reds and blues) was 0.48 yuan each and the cost was 0.38 yuan for a 7.37 percent cost-profit ratio, while the cost-profit ratio for production of extruded glass tumblers was 35 percent. As a result, the plant wanted to produce only extruded tumblers, and did not want to produce drawn tumblers. This occasioned a long-term severe shortage of extruded tumblers in markets. Another example was the parity price between vase-type spittoons with high feet and persimmon-shaped silky white spittoons for which a similar situation existed. The 21 cm vase-shaped spittoons with high feet were a top-quality item with a factory price of 3.21 yuan each. They were produced at a cost of 2.41 yuan, so after tax profit was 0.32 yuan, and the cost-profit ratio was 13.3 percent. However, the factory price of top-quality persimmon-shaped silky white spittoons was

only 2.04 yuan, and their production cost was 1.16 yuan each for an after-tax profit of 0.463 yuan and a cost-profit ratio of 39.9 percent. As a result, the plant wanted to produce persimmon-shaped spittoons, and it had little enthusiasm for producing vase-shaped spittoons with high legs. However, supply of high-leg type spittoons was fairly short while the supply of persimmon type spittoons was greater than demand. This means a depression of the price of persimmon type spittoons and a rise in the price of vase type spittoons.

B. Price ratios for industrial manufactures that can be substituted for each other. In arriving at price ratios for this category of goods, attention must be given on the production side to encouraging producer units to produce products for which resources are plentiful and costs relatively low. On the consumption side, consumers must be encouraged to select for purchase those goods for which output is fairly large and resources relatively plentiful. In order to conserve fats and oils, consumers should be encouraged to use less soap and more laundry powder, so the price of laundry powder should be set a little lower than the price of soap.

C. Price ratios between ordinary goods and high-quality goods. In arriving at price ratios for these kinds of goods, the price of high-quality consumer goods should be higher than the price of ordinary consumer goods in order to assure basic needs in the lives of the working people, proper regulation of supply and demand for high-quality consumer goods, and making sure that the country derives a certain financial gain. During the readjustment of alcohol and tobacco prices in November 1979, for example, it was decided to make grade distinctions in raising prices, with prices rising more for high-quality name brands, less for run-of-the-mill brands, and no rise for low-quality brands. Today, however, what has to be watched is that with development of production and rise in the people's standard of living, the structure of consumption has begun to undergo new changes, and society's purchasing power shows a trend toward medium- and high-quality goods. A State Statistical Bureau survey of 10,282 commune-member households in 23 provinces, municipalities and autonomous regions showed new changes as having taken place in the structure of rural consumption. In 1979, these 10,000-odd households had average net incomes of 160.20 yuan per capita, 20.60 yuan more than during the previous year. As peasant incomes increased, their purchases of durable consumer goods also increased. Ownership of medium- and high-quality products used in daily life in 1979 was as follows: every 10 households averaged 3.6 bicycles, 2.3 sewing machines, 2.6 radios, and 5.5 clocks or watches. In addition to the aforementioned durable consumer goods, the broad masses of peasants also particularly wanted fairly high-quality ready-made knit polyester, high-quality chemical fiber fabric, and medium- and long-fiber clothing for males and females. With the increase in earnings of staff members and workers in cities and towns, a future decline in the number of people per family and an increase in average income, people will have more money in their hands and will be very choosy about goods. Representative surveys conducted in some counties and cities show an overall trend in the structure of city and town inhabitant consumer goods purchases toward increased overall growth in the use of purchasing power for food and clothing. Purchases of things used in daily life are greater than clothing, and clothing

is more important than food. Demand for medium- and high-quality durable consumer goods has increased greatly. Statistics from the Tianjin Municipal Statistical Bureau on income and consumption by 500 staff member and worker households between January and November 1980 show an average 39.39 yuan per month being used for living expenses, 31.9 percent more than in 1978. After staff member and worker income had increased, now that improvements have been made in diet, improvement of clothing, items used in daily life and cultural life is in the process of developing. The trend in clothing, cultural life and entertainment is toward purchase of more medium- and high-quality goods. During this same period, these 500 staff member and worker households purchased a total of 71 wristwatches, 77 bicycles, 19 sewing machines, 57 electric fans, 30 floor (or table) lamps, 3 cameras, 1 washing machine, 26 large chifforobes, 10 sofas, 354 suits of woolen clothing, 1,204 suits of chemical fiber clothing, 1,532 pairs of leather shoes, 101 television sets, 22 tape recorders, and 28 radios. Goods formerly considered "luxury items," such as cigarettes, alcoholic beverages, candy, wristwatches, bicycles, leather shoes, and electric fans, have become necessities in the daily lives of the people. Consequently, the view that holds that there should be no lowering of prices of medium- and high-quality goods or that a lowering of prices would have no large effect on the people's livelihood is out of date. So long as production of high- and medium-quality goods develops and costs drop, setting the stage for a lowering of prices, suitable lowering of prices is necessary for development of production. Such would help raise the people's standard of living, and would also help updating and replacement of industrial manufactures. In the wake of the State Council lowering of the price of polyester fabric in November 1981, it ruled a reduction in the retail price for four medium- and high-quality goods beginning from 15 January 1982. This included a 10 to 15 percent reduction in the price of China-produced mechanical wristwatches, and a 20 percent reduction in some cases; a reduction in the price of 12-inch name brand black and white television sets such as Feiyue brand from 400 or 420 yuan to 380 yuan, with proportional reductions for other sizes; an approximately 10 percent reduction in popular models of transistor radios and appropriate reductions in the price of high-quality models depending on specific circumstances; and a 10 to 15 percent reduction in China-produced stretch nylon and pure polyester knits. All of these reductions demonstrated the point. Generally speaking, because of the current development of the country's productivity, price levels for high-quality consumer goods must be higher than prices for ordinary-quality consumer goods in order to help regulate supply and demand and suitably increase national financial revenues.

D. Price ratios for complete machines and component parts for durable goods. This category of price ratios has to proceed from increasing national economic results thereby helping organize the specialization of production, cooperation and assuring supplies of parts. Since spare parts must undergo processing and assembly in order to become complete machines, the sum of the price of spare parts would be lower than the price of the whole unit. The factory price of synergistic parts should, in principle, be lower than the cost of producing these goods in the first place by the main plant. If prices for various parts are set too high, that will encourage some enterprises to be either "large but all-embracing," or "small but

all-embracing." If the sum of the price of parts is greater than the price of the whole machine, producer units may produce more parts and fewer whole machines or else price whole machines in terms of component parts. On the other hand, when parts prices are too high and it costs too much to repair whole machines, consumers may prefer to buy new machines rather than repair old ones. This would shorten the useful life of whole machines and create a waste of social wealth. Naturally, parts prices cannot be set too low either. If they are too low, producers may produce more whole machines and fewer parts. On the other hand, consumers may prefer not to buy whole machines but rather to buy parts and assemble them themselves. This would hurt product quality. Such a problem exists with radios.

E. Price ratios for industrial manufactures that vie for the same raw materials or have a similar use. Such price ratios should advance rational use of society's existing productivity, save raw materials and satisfy social needs. For products urgently needed by society and for which raw materials are fairly abundant, price ratios should help make the most of the production potential of machine industries and also advance development of handicraft industry production. For products for which the machine industry's production potential is fairly large but for which raw materials are insufficient, price ratios should help develop machine industry production. For products that are currently produced mostly by handicraft industries that machine industries cannot replace for the time being, as well as for traditional handicraft industry wares that should be preserved for a long time, pricing should encourage increase in handicraft industry production.

F. Price ratios between Chinese manufactured goods and imported goods. A spirit of encouraging exports and limiting imports is to be carried out. In order to support and protect domestic production and to regulate demand and restrict the outflow of foreign exchange, the sale price of all imported goods of the same kinds as are produced domestically should be somewhat higher than the price of the domestic products, and the domestic sale price of high-quality consumer goods imports should be even somewhat higher. A quality factor should also be considered in order to maintain a greater disparity.

G. Price ratios for labor costs involved in similar processing. An example is the price ratios between labor costs for various styles of clothing. In the Shanghai clothing industry during the 1980's, there was too little difference in some cases and too great a difference in other cases in labor costs between children's clothing and adult clothing, Chinese style clothing and Western style clothing, and retail clothing and wholesale clothing. For example, the labor cost in the price of Chinese style clothing at that time was maintained at virtually the same level as before joint state-private ownership. Historically, labor costs in Jiangsu and Guangdong readymade shops have been low and have included the exploitation of child labor. A woman's quilted cotton jacket usually requires one man-day to make, but the prevailing labor cost is only 3.30 yuan, so 0.13 yuan is lost on every jacket made, but the labor cost for a Western style cotton jacket is 4.20 yuan. As another example, the labor cost for a child's cotton clothing is generally 55 percent (for a small size) and 65 percent, respectively, of the labor cost for an

adult's clothing is not that great. It takes 90 minutes to make an adult man's jacket and about 80 minutes for a child's, a 12 percent difference in labor time. However, the labor cost for the adult's clothing is 1.80 yuan, while it is 1.40 yuan for the child's clothing, a difference between the two of 25 percent. In the mass production of readymade clothing, a suit of woolen Zhongshan clothing takes only about 860 minutes to produce. Processing materials brought in from outside China into clothing is done one at a time, and it takes 1,100 minutes per suit. It takes 236 minutes more worktime to make clothing from materials brought in from outside China than for mass-produced clothing, but the labor cost for both is 13 yuan. As a result, enterprises are more willing to produce adult clothing than children's clothing, to produce Western style clothing rather than Chinese style clothing and to produce mass-produced clothing rather than to process materials brought in from outside China. They like even less to make clothing of new design that takes a lot of time.

H. The issue of setting prices of industrial manufactures on the basis of quality is essentially an issue of how to arrive at price ratios for quality (difference in price for quality), i.e., an issue of how to form an equitable price ratio (or difference) for the same goods of different quality. A policy of arriving at price on the basis of quality must be carried out for industrial and agricultural products; however, each has its own special characteristics. Price differences for agricultural product quality are arrived at mostly in the form of different grades, products being graded according to specific quality standards, with a certain quality differential price rate being set for different grades of products. For industrial manufactures used in daily life, not only are there differences in price by grades (such as first-quality and second-quality products, premium products and seconds), but also price differences based on specifications (size, length, weight, thickness and width), price differences based on molding (as for cool plastic shoes that are open toed and open heeled, close toed and close heeled, open toed and close heeled, etc.), price differences based on style (such as enamel wash basins that may be completely colored, decorated on a single side, or decorated on both sides). This is a general statement. When it comes to specific product quality, individual special characteristics must be taken into consideration. Examples are the useful life of electric light bulbs, by how much clocks and watches err and whether they are in old or new style casings, sensitivity and distortion in transistor radios, whether knitgoods have been resin-finished and whether they have been processed to be shrink- and wrinkle-resistant. Pricing should encourage high-quality new varieties and new styles, promote upgrading and replacement of goods and satisfy the people's diverse needs.

Why are there different qualities of the same kinds of industrial manufactures used in daily life? In general, there are the following two reasons:

1. Production of different-quality goods to meet consumers' different preferences and different needs, such as five different grades of cigarettes, special grade and common soy sauce, and coarse, fine, thick, thin, fancy and plain cotton cloth, as well as processing to prevent shrinking and wrinkling. Under these circumstances, since technological requirements differ in the

production of different qualities, consumption of human labor and materials also differ. Usually the tendency is for product quality to be synonymous with cost, and differences in manufacturing costs for different quality products is used for reference in arriving at prices on the basis of quality.

2. Since the technical proficiency of producers varies, since production tools and equipment vary in the extent to which they are advanced or antiquated, and since the sense of production responsibility of producers varies, product quality varies. Under these circumstances, quality and cost tend to be synonymous, but may not be. They may be synonymous because the value that proficient labor creates is greater than the average for labor in the society, and because the materialized labor contained in advanced production tools and equipment is greater than in antiquated ones. They may not be synonymous because not only may the quality rise for the goods produced per unit of time, but output may increase as well. As a result, there will be no increase in costs simultaneous with rise in quality per unit of products, or costs may even decline. Furthermore slapdash production and carelessness in handling during shipment may cause a decrease in product quality, yet costs will not be reduced or may even increase. Whenever there is a conflict between costs and quality, product quality should be the standard used in arriving at price. However, product quality is decided on the basis of an overall appraisal of numerous indicators, such as usefulness, durability and suitability. It is difficult to express a very large number of these criteria in terms of figures. It is necessary to propose specific criteria on the basis of different product characteristics that must be met in making an appraisal. Generally speaking, if supply and demand relationships are normal, where there are brisk sales of top-quality and slack sales of lesser-quality merchandise, the supply and demand situation can give expression to how society appraises the quality of goods. Since this is also a functioning of the laws of value, the supply and demand situation may also serve as reference for arriving at price on the basis of quality. However, if supply does not meet demand, readily salable merchandise is not necessarily top-quality merchandise. Conversely, when supply is greater than demand, slow selling merchandise is not necessarily lower quality merchandise. However, this reflects changes in people's desires for colors, styles, and varieties.

With the increase in earnings of the masses of China's city and country people during the past several years, not only has the demand for quantity of consumer goods increased, but new demands have also been raised for quality, colors, styles and varieties. People everywhere want new and original designs, dependable quality, durability and cheap prices. Consequently, in the process of developing consumer goods production, extremely close attention to readjustment of product structure is necessary, with planning done in accordance with market demand to develop colors, styles and varieties. After a certain period of time, as output increases, new designs become generally available, which is to say that they become relatively out of date. What is to be done when this time comes?

First, merchandise has to be constantly upgraded and updated, and styles, colors and varieties have to be replaced, the new taking the place of the old. This is the pattern of development of consumer goods. Price policies

have to promote the updating and replacement of consumer goods, and new styles and varieties have to be brought out constantly. Therefore, in pricing work it is necessary not to set everything in concrete without change for years on end, but rather constantly make readjustments on the basis of market supply and demand. Those concerned with setting prices must first understand market trends, strengthen market forecasting work, and make the most of the role of price levers to spur production and circulation of goods. Stable price policies are not frozen policies; stability is attained in the midst of constant readjustment. Only through reasonable changes is it possible better to satisfy needs in the people's daily lives and to benefit consumers.

Second, in the task of arriving at price on the basis of quality, the relationship between quality changes and price changes must be properly handled. Sensibly speaking, if merchandise quality changes, its price should be correspondingly readjusted at once. However, price readjustments must be handled on a case-by-case basis in terms of reasons for changes in quality and the extent of changes in quality, with stability of market prices kept in mind. Generally speaking, whenever quality rises as a result of technological improvements or changes in colors and styles, prices should be raised to offset increases in expenses for labor and materials. If quality rises with no change in costs or a lowering of costs, there should be no rush to raise the price of goods to correspond with the rise in quality. Prices should be raised slightly or not at all. Once quality has been stabilized, quality standards should be raised, and the prices of lesser-quality old merchandise reduced. If merchandise quality drops as a result of efforts to save raw materials or for technical reasons related to staff members and workers, merchandise prices should correspondingly drop, in principle. However, if the quality decline is temporary, temporary prices should be set for inferior and substandard goods. When both quality and costs genuinely increase anew, new categories may be established and pricing done on the basis of quality. However, it is necessary to guard against disguised price rises. For example, woolen scarves formerly sold for about 7 yuan per 140 centimeter length at a certain place. Now, however, the retail price for longer 170 centimeter scarves has been raised to between 11 and 15 yuan. Formerly the retail price for a 2.7 denier face camlet was 1.06 yuan per chi, but later on the list price changed to 1.11 yuan. Once a little design had been stitched on the top of leather shoes that had formerly been the same, the price was raised 10 percent per pair for those with the stitching. A 10-note child's piano with visible nails and wooden keys sold for only 3.80 yuan. When it was changed to hidden nails and plastic keys, the price rose to 5.59 yuan. Small price rises should be allowed for such changes in specifications and models, but when the difference is too great, consumers will not accept them, and they amount to covert price rises, which are not commensurate with the setting of prices on the basis of quality.

Chapter 4. Price Policy Problems

1. Necessity and Possibilities for Stable Prices

Maintenance of a decline in prices, stable prices, or rises in prices of retail goods within a fairly long historical period result from different national policies in the management of prices.

Not every country approves stable price policies by any means. Bourgeois countries start with whatever helps the bourgeoisie exploit the working classes' surplus value, frequently pursuing a policy of price rises. Back in the 19th century, in postulating his theories on currency volume, the British bourgeois economist, David Hume, discovered that price rises benefit capitalists. He believed that increase in the amount of currency in circulation must inevitably lead to currency devaluation and a rise in prices. However, only finally would this devaluation "raise the price of labor," which is to say raise wages. Thus, it would increase merchants' and industrial capitalists' profits at the expense of workers. In his view, this was a natural state of affairs. Quite a few contemporary bourgeois economists preach creeping inflation. They believe that a general 2.5 percent annual gradual and sustained rise in prices is most beneficial for the capitalist economy and increased earnings for capitalists. Such preachments form the theoretical underpinnings for the pursuit of price rise policies by bourgeois countries.

Socialist countries represent the interests of industrial and agricultural working people, and once they have abolished exploitive systems, they eliminate the class basis for price rise policies. Nevertheless, socialist countries cannot eradicate the economic phenomenon of price rises possibly continuing to occur. Numerous subjective reasons can lead to price rises. When these problems occur, should there be a persistence in stable price policies in a struggle to maintain stable prices, or should such policies be abandoned and other paths chosen? This is a problem that may frequently provoke controversy. During the 32 years since the founding of the People's Republic, the ship of socialist construction has had to be navigated through several fierce storms; nevertheless, neither the party nor government has ever departed from an overall policy of stable prices, and even when prices have fluctuated, they have not abandoned efforts to stabilize prices.

The stable price policy of which we speak is relative to a price rise policy that hurts the interests of working people and lowers working people's real income. The price stability of which we speak is basic stability of market retail prices that guarantees, first of all, stable prices for major goods that the people need. A stable price policy does not mean frozen prices, but rather one that permits readjustments of inequitable price ratio relationships while maintaining overall stability of retail prices. In the process of readjustment, the prices of some merchandise will rise or fall. The overall level at which rises and falls offset each other cannot be immutable; however, every effort should be made to achieve relative fairness, and this is a basic requirement of a stable price policy.

Neither the party nor government proceeded from subjective desires in determining stable price policies, but worked them out instead on the basis of understanding of various socialist economic laws as related to China's circumstances. Testing of these policies through many years of practice has demonstrated their correctness.

A socialist country such as ours must practice a policy of stable prices. The lofty mission of socialism is to effect a steady rise in the material and cultural standards of living of the whole people. But a rise in retail prices with no change in compensation paid labor amounts to a decline in real income and a lowering of living standards. Not only this, but the savings that the working people have accumulated through arduous toil, the money in their hands, and the national bonds that they have purchased to help national construction will also be devalued as a result of price rises. This damages their real interests, and thus it runs counter to the requirements of basic socialist economic laws. Some people may pose the following question: Since the aim of socialist production is steady improvement in the material and cultural standard of living of the people, why do we not adopt a policy of lowering prices? Would not a steady lowering of retail price levels more directly raise the working people's standard of living? We have not adopted a policy of lowering prices because of the present level of development of the country's productivity. In a situation in which both industrial and agricultural production are fairly backward, a general lowering of the prices of consumer goods would not only create losses for enterprises in the production field, making it impossible to recompense actual labor expenditure, but would also result in shortage situations in which supply would be unable to keep up with demand and goods would be out of stock in the circulation field. The state would thus be forced to increase prices anew, and even if it were forced to expand the scope of planned supply of goods, a black market would occur because of the inability to buy goods in markets, with the result that the lowering of prices would become a dead letter. In addition, if producer units were able to lower product costs and increase fund accumulation, but since the country has to carry out construction, it would still be necessary to raise prices of agricultural products for which it pays overly low prices, and it would have to spend money on this account. Consequently, a part of the social wealth created through savings on labor expenditure would be given to peasants through raising the prices paid for agricultural products. Another portion of social products would be distributed to workers in the form of required wage increases. Many years of experience in China has shown that these methods are able to stimulate worker enthusiasm for production more directly than the lowering of prices, and that they are more helpful in developing production in accordance with the country's needs. Additionally, once agricultural product prices have been raised, costs rise for industrial manufactures that use agricultural products as raw materials, so prices of such manufactures cannot be lowered further without damage to the level of national accumulations.

It is possible to carry out a stable price policy in our country. This is true, first of all, because the socialist system has opened for us a broad vista for raising labor productivity rates. Naturally, this has a prerequisite, namely, that we must consciously apply objective laws and not

make mistakes with economic policies and in the guidance of production. Some comrades are baffled by some of the setbacks encountered in the economy and temporary declines in labor productivity. They lack sufficient confidence about lowering the expenditure of labor and costs of industrial and agricultural goods and feel that prices of agricultural products have to rise. Consequently, they are also apprehensive about whether there can be an overall trend toward price stability. Actually, a look at the history of the world down through the ages shows that labor productivity rates in new social systems are inevitably higher than in old social systems. This is an inevitable trend in historical development. It was from just this historical materialist conception that Lenin proceeded to assert with complete confidence that "in the final analysis, labor productivity rates are the major and most important thing guaranteeing the victory of new social systems. Capitalism created labor productivity rates such as had never existed under the serf system. Capitalism can be thoroughly vanquished, and it will certainly be thoroughly vanquished, because socialism is able to create new and much higher labor productivity rates."¹ Some comrades have not fully examined the history of the development of capitalism. They have reached one-sided conclusions about the history of inflation and the history of price rises from the history of capitalist currency, and on this basis they have advocated that China institute inflationary and price-rise policies, which is a wrong perception. The fact is that up until the third decade of the 20th century, i.e., the period of the rise of capitalism, prices in capitalist countries were basically stable or tended to go down. Take the United States, for example. Using a consumer price index of 100 for 1967, the consumer price index in 1800 would have been 51 percent of that and would have risen to 63 percent during the first war of independence in 1814. From the end of this war until the beginning of the Civil War, the consumer price index continued on a steady decline. Moreover, even during the high tide of the Civil War, it did not rise higher than 47 percent, which was lower than the index during the first war of independence period. During World War II, the price index rose from 30 percent in 1915 to 60 percent in 1920. However, no sooner was the war over than prices began to decline. During the period of development of capitalism toward monopoly capitalism, the situation changed. Following the great 1929-1933 crisis, the bourgeois government halted the convertibility of gold and paper currency, abandoned the principle of making loans against commercial paper, and instituted an inflationary policy. Subsequently the phenomenon of annual price rises genuinely came about. The history of American prices demonstrates that thanks to a rise in labor productivity rates resulting from technical progress during the process of development during the free capitalism stage, a trend toward decline appeared in the midst of general upward and downward fluctuations in prices, and it was only during wartime that major rises in prices occurred as a result of the destruction of productivity and imbalances between supply and demand. As soon as hostilities ended and as soon as production revived, development was in the direction of a rise in labor productivity rates and a decline in prices. With the arrival of the monopoly capitalist stage, through a rise in labor productivity rates, big capitalists used price

¹ "Selected Works of Lenin," Vol 4, p 16.

advantages like big fishes eating little fishes, free capitalism thereby entering the stage of monopoly capitalism. If even capitalist societies are able to increase labor productivity rates in the midst of war and crises, given the superiority of its system, why cannot socialism do what capitalism can do? It is certainly true that problems exist in China today with a slow rise in labor productivity rates and not very high economic results, but this is the aftermath of the two periods of "leftist" errors. Is it not true that during the First 5-year Plan period and the 3-year readjustment period of China's history that great achievements were made in raising labor productivity rates tremendously? Consequently, pessimism and lack of confidence are groundless. The problem is just what Lenin said it was, namely, understanding that a rise in labor productivity rates in socialist societies is a very difficult and long-term event, but this event has already begun. So long as we are adept at summarizing the lessons of failures, we can advance along the road of steadily increasing labor productivity rates and, once we have done this, we will have created the necessary material foundation for stable prices.

In the production field, the socialist system's ability to create ever-increasing labor productivity rates is a basic condition for price stability. In the circulation field, the socialist planned economy's ability conscientiously to organize social production, to balance supply and demand, and to overcome capitalist competition and anarchy are the second basic conditions for price stability. Only socialist societies can contain these conditions. Price instability is a chronic malady of capitalist societies, and it is a regulator produced by society in this system. Were prices to become stable, capitalists would become blind. They need price fluctuations to transmit messages to them about activities from which they can rake in excess value. Bourgeois economists frequently tout this as being a superiority of capitalist society, and that it is an ingenious mechanism that the Creator has bestowed upon the capitalist system. Certainly this is to look at the problem through colored glasses. All they are thinking about is how they themselves can gallop to their heart's content among price fluctuations and speculate to gain profits, positively unconcerned about the torment that the working people suffer from price fluctuations. This torment reaches its apex in the revolving of the capitalist reproduction cycle. This is when during times of crisis and depression, capitalists do everything possible to lower prices in order to deal with excess goods, and simultaneously lower wages in order to lower costs and strengthen their own competitive position. However, during periods of recovery and economic upsurge, with the enlivening of speculation and expansion of confidence, purchasing power gradually inflates and prices rise concomitantly while workers' real wages concomitantly decline. What is there to extol about this "ingenious price mechanism" as far as working people are concerned? Instability of capitalist prices is a good thing for the capitalist system, but a bad thing for the working people. A socialist planned economy is able consciously to organize the balance between supply and demand, and thus it is able to avoid price fluctuations. This is extremely important for protection of the workers' interests.

Some comrades believe that though admittedly a planned economy can achieve a conscious balance between supply and demand, nevertheless, this cannot yet

be achieved in our country for the reason that labor productivity rates cannot rise very fast in our country, growth of national income is limited, both accumulations and consumption have to increase annually, and frequently demand exceeds supply. This force prices to tend to rise. Those who hold these views jumble together two different problems, namely, the contradiction between society's needs and society's production, and the contradiction between purchasing power needs and the goods that can be supplied.

Truly China's economy is backward; it has little accumulated wealth and a very many things have to be done. As a result, contradictions regularly exist between social production and social needs. We have to guarantee the worker and peasant masses' real benefits, everybody's earnings thereby rising yearly; and we also have to guarantee the worker and peasant masses' long-term interests, social production thereby expanding yearly. Therefore, contradictions regularly exist between consumption and accumulations. Does that mean that we cannot make growth in consumption and accumulations compatible with growth of national income? Not at all. As far as social needs and supply of products is concerned, the former is always greater than the latter. However, as far as the requirement to be able to pay and amounts of goods that can be supplied in any given year are concerned, both can be balanced through accounting and rational planning. As a result of "leftist" errors we were formerly anxious about scoring successes, and frequently we overdid both distribution of national income and disbursements of public funds with the result that society's requirement to be able to pay was greater than the amounts of resources that could be provided. This was a mistake made in work under guidance of erroneous ideology, and it must be said that this is not the normal state of a socialist economy but an abnormality. Once the guiding ideology had been corrected, readjustments turned the abnormality into a normality. Simply by making the most of the superiority of the planned economy we shall be able to bring about substantial balance between supply and demand in the circulation field. We have had successful experiences in this regard long ago. This is the second condition required for our stabilization of prices.

The third condition for our stabilization of prices is in the realm of distribution where the state can consciously apply various economic levers, using them in concern to maintain price stability. This is the use of methods such as planned prices, planned supply, planned subsidies, etc.

Planned prices, planned supply and planned subsidization of the major means of production and the means of livelihood are both objective requirements of the laws of planned proportional development of the national economy and the concrete application of socialist economic laws to China's circumstances.

Institution of planned management of the major means of production and means of livelihood was a prerequisite for the all-round victory in China of the three great socialist transformations, for the absolute dominance of the system of ownership by the whole people in the national economy, as well as for the establishment and consolidation of a political and economic alliance between the working and peasant class. Planned prices are characterized by not only consideration of the objective requirements of the laws of value, but also

consideration of the equitable distribution of net income in all quarters. Consequently, during the period of normal socialist economic development, they not only are able to promote production and circulation, but are also able to consolidate overall balance in the distribution realm of the national economy. In addition, China's practice has demonstrated that when the national economy encounters setbacks, even when lashed by free prices, planned prices are able to function as a pillar of relative stability in the current. Were it not for them, the lashing of the waves of free prices and the chain reaction of price rises could not be held to the minimum. It is precisely because of reliance on the resistance that planned prices provide that we are able to maintain a stable footing in the midst of fierce winds and violent waves and, when the time comes, to readjust the national economy and rebuild economic normalcy.

When the means of livelihood are relatively scarce, planned supply to the people of the basic means of livelihood needed in their daily lives is done by coupons. This is an important way of maintaining price stability. Planned supply is an outgrowth of undeveloped socialist countries, thus, as social productivity develops, it will gradually shrink rather than expand in scope. Some people use this point to denigrate and depreciate it, saying that it is no reflection of the superiority of socialism. This view deserves discussion. One cannot divorce oneself from the level of development of productivity and social effectiveness when judging whether a system is superior or equitable. Given today's level of development of productivity in China, were there no planned distribution of the basic means of livelihood, stable prices would be impossible. Not only would the people's needs not be assured; they would not even be minimally satisfied. Obviously this would run counter to the interests of the people. In this sense, use of planned supply to assure satisfaction of the basic means of livelihood and to keep prices stable is an objective demand placed on basic socialist economic laws in socialist countries in which productivity is not well developed. During periods of difficulty in the national economy, the role of planned supply is particularly marked on maintenance of price stability and in assuring the basic needs of working people.

Maintenance of planned prices and planned supply requires not only application of tax revenue levers to regulate enterprise profits, but also requires dovetailing with planned subsidization. Planned subsidization is the application of state financial distribution levers to the maintenance of stable prices. Subsidies are of various kinds. They may be used with all links, but they are all measures adopted when state procurement prices are greater than sale prices when an inversion between purchases and sales appears. This situation usually occurs when the national economy is undergoing setbacks and product costs have increased, or when the state has to raise producers' earnings. At such times, the state both wants to maintain or increase producers' benefits without damaging consumers' benefits, so it cannot avoid shouldering the "burden" of inversion between purchases and sales. Some people oppose subsidies on the grounds that they are bad for the balance between financial receipts and expenditures and bad for the building of a rational price structure. They deny that they are a kind of economic lever, and say that such methods contravene economic laws. Though there is some truth in such statements, nevertheless, if this kind of problems is examined without regard for

specific historical conditions and overall strategy for national readjustment of the national economy, a correct conclusion is difficult to reach. Take farm product price subsidies, for example. Just a commitment to raise farm product procurement prices must inevitably lead to a redistribution of national income. Alternatively, a selective plan can be provided that does not go beyond raising agricultural product retail sale prices and providing government subsidies (and when business links still make a profit, subsidization can consist of reduction in the amount of profits that business have to turn over to the state). There is no third possible road to take. When raising retail prices of agricultural products, in order to guarantee no decline in staff member and worker standards of living, the state will have to raise wages correspondingly. As far as the public treasury is concerned, payments for this purpose will be now less than for subsidies, however, this method may bring in its wake a series of price rise chain reactions. This chain reaction cannot occur when government subsidies are used. Thus, the problem is posed here of whether the damage is greater from the public treasury shouldering the subsidization burden, or whether the damage from a price rise chain reaction is worse. Since there is no third possibility, the alternative that does the least damage will have to be selected; there is no sure-fire policy. We believe the key to the problem does not lie in the form of financial subsidy to be used but rather that the longer the subsidization burden is carried, the smaller it becomes; it does not become larger the longer it is carried. If one says that raising procurement prices paid for agricultural products and institution of price subsidies are used as strategic chessmen for regulating the national economy across the board and are dovetailed with other measures to help revive normal economic order, increase economic results and promote smooth carrying out social reproduction, then as government revenues increase, subsidies will gradually become a smaller part of financial revenues, and there can be no cause for much criticism of such a policy decision. Even though it contains some inequities when looked at piecemeal, when looked at as a whole, it may be regarded as a step up. Conversely, if erroneous economic policies in the national economy as a whole are not corrected, if lopsided proportional relationships are not readjusted, if labor productivity continues to decline, and if costs rise steadily while the state only passively uses a rise in prices and subsidies to counter the situation, subsidies will become a bottomless pit, and a situation will inevitably be created that it will be difficult to clean up. A look at China's current situation shows we are in the former and not the latter category. Consequently, we must fully affirm the positive role of planned subsidies in readjustment of the national economy and stabilization of prices.

The four conditions in which we are able to stabilize prices are primarily in domestic markets. They are not directly related to prices in foreign trade and domestic trade, nor are they affected by price fluctuations in international markets. This is also a major condition for price stability.

It was formerly said that socialist countries eradicate capitalist exploitation, and that internally no class basis exists for manipulating prices and speculating to gain profit. But there are also different types of socialist countries. Some socialist countries that are limited by geography and resources have no choice but to found their economies on the import of raw

materials and the export of products. Consequently, the structure of their domestic prices cannot escape the effects of international market price fluctuations. This problem was demonstrated extremely conspicuously in the skyrocketing of international prices brought about by the petroleum crisis of 1974-1975. Subjectively, some socialist countries hoped to stabilize prices, however, because they were inextricably dependent on international markets, if they persisted in carrying out a policy of having domestic trade and foreign trade go their separate ways and instituted two sets of prices, the state had to assume a heavy price subsidy burden for high-priced imports. At this time, they were frequently forced to abandon a two-track system of prices with the result that domestic prices fluctuated as international market prices fluctuated. Since China is a vast land with abundant resources that pursued primarily a policy of self-reliance, it stood its ground steadfastly in the midst of sudden changes in the situation, and this was a very great advantage.

In summary, a stable price policy is in accord with the objective requirements of socialist economic laws. This policy fits in with the people's desires and is compatible with the people's real interests and their long-term interests. Pursuit of this policy is both objectively necessary in China and is realistically possible as well. Consequently, we must support this correct policy, and make unflagging efforts to carry it out in real life.

2. Thirty Years of Struggle For Stable Prices

China has won major accomplishments in carrying out stable price policies from the time of the founding of the nation until 1979. Comparison of 1979 with 1980 shows a 35.1 percent rise in retail prices for consumer goods in state-owned businesses, or an average 1.17 percent annual increase. China is one of the countries of the world with the most stable prices (See Table 15). This general picture of basic price stability was achieved despite the two setbacks to the national economy caused by two "leftist" errors. Were it not for these setbacks, overall price levels would have been more stable.

The table shows greatest price rises to have been primarily for consumer goods using agricultural products, and the fairly large rise in prices resulted primarily from several increases in prices of agricultural products. Second was fuel. Prices of industrially manufactured means of consumption were adjusted up and down, the prices of reading and writing materials and medicine declining. Prices of several categories of industrial manufactures rose mostly during the recovery period and during the "Great Leap Forward" period. If the 1952 index is 100, clothing prices in 1979 had risen only 0.4 percent from 1952, and items used in daily life had risen only 7.9 percent.

Table 15. Retail List Price Indices by Category in State-owned Businesses
(1950 List Price = 100)

1) 项 目	1952	1957	1965	1975	1979
2) 总 指 数	112.1	121.4	132.3	128.4	130.9
3) A. 消 费 品	112.3	122.2	134.1	132.6	135.1
4) 1. 食 品 类	110.9	128.8	144.6	153.7	153.4
5) 粮 食	112.1	120.4	131.2	145.0	147.2
6) 鲜 菜	116.7	149.4	136.7	173.9	188.5
7) 副 食 品	110.3	138.8	168.4	167.6	175.0
8) 烟 酒 业	111.8	127.0	156.3	151.3	152.5
9) 其 它	111.9	114.5	126.4	125.5	131.0
10) 2. 衣 着 类	111.9	111.7	113.6	112.7	112.3
11) 3. 日 用 品 类	118.2	116.2	130.4	126.2	127.1
12) 4. 文 化 用 品 类	117.1	96.2	97.6	88.5	92.1
13) 5. 医 药 类	122.9	114.8	99.3	63.5	65.4
14) 6. 燃 料 类	135.9	150.3	160.1	154.0	154.4
15) B. 农 业 生 产 资 料	108.2	110.8	114.7	100.0	100.5

16) 说明:
资料来源:《1981年中国经济年鉴》VI, 第23页。

Key:

- 1) Particulars
- 2) Overall index
- 3) A. Consumer goods
- 4) 1. Food
- 5) Grain
- 6) Fresh vegetables
- 7) Nonstaple foods
- 8) Tobacco and alcohol industry
- 9) Other
- 10) 2. Clothing
- 11) 3. Items used in daily life
- 12) 4. Reading and writing materials
- 13) 5. Medicines
- 14) 6. Fuel
- 15) B. Means of agricultural production
- 16) Source of data: "China Economic Yearbook, 1981," VI, p 23.

China's prices have remained substantially stable with a slight rise for many years, but growth of the people's level of consumption outstripped the speed of rise in prices resulting in an improvement in the people's standard of living. (See Table 16)

Table 16. Price Indices and Residents' Average Consumption Levels

1) 年 份	2) 零售物价总指数	3) 居民年平均消费水平指数
1952	100	100
1957	108.4	122.9
1965	120.3	126.4
1975	117.9	156.9
1979	123.9	184.9

4) 说明:
资料来源:《1981年中国经济年鉴》VI, 第23、25页。

Key:

- 1) Year
- 2) Overall retail price index
- 3) Resident's average annual consumption level index
- 4) Source of data: "China Economic Yearbook, 1981," VI pp 23, 25.

These accomplishments were by no means easy to attain. They were realized through struggle against factors that constantly affected price stability, and these obstacles were surmounted.

Historically, China has had two major price fluctuations, and it has also had two small fluctuations in addition to the two major ones. Exploration of reasons for these historical price fluctuations and summarization of historical experiences in surmounting price fluctuations is doubtlessly extremely helpful in raising our consciousness about price work and in solving current price problems.

A. The first large fluctuation in prices occurred during the period immediately following founding of the nation. Four nationwide upward price trends occurred between June 1949 and March 1950. During this period, the price of rice in Shanghai rose 21-fold, the price of white newsprint rose 28-fold and the price of cigarettes rose 38-fold.

The main reasons for price rises during the period immediately following the founding of the nation were, first of all, the aftermath of 12 continuous years of inflation under the Kuomintang government, plus continuation of the war. Public finances were considerably in the red, and too many banknotes were in circulation. In 1949, two-thirds of all national spending was deficit spending, and these were deficits in the wake of victory in the revolutionary war. On the one hand, the entire mainland was rapidly liberated; government expenditures increased greatly; the number of military and government personnel reached 9 million, and grain had to be transported to relieve disasters. In addition, in liberated areas where hostilities had ceased not long before, local bandits remained to be routed out; putting railroads back in operation was not easy; and exchanges between cities and countryside had to go through a recovery process. In particular, price rises

at this time resulted from opportunistic capitalists taking the opportunity to stir up trouble. They did not balk at using 40 percent monthly interest rates to soak up idle funds in the market, to buy up goods, to hoard for speculation and to jack up prices.

Both the party and government made a clearheaded appraisal of the situation at that time and made their primary mission the achievement of balance between financial receipts and expenditures. Comrade Chen Yun said the following in early 1950: Attainment of stable financial prices will require achievement first of near balance between receipts and expenditures of public funds, and the key to balance between receipts and expenditures of public funds lies in conservation of expenditures and consolidation of receipts. The party and government took important actions in this regard as follows: (1) conservation and production, i.e., increased production and conservation; (2) issuance of people's victory convertible bonds; (3) centralized financial and economic work, i.e., centralization of national financial receipts and expenditures, centralization of national materials allocation, and centralization of cash management nationally. After these actions had been taken, financial receipts and expenditures became nearly balanced by the end of 1950.

Simultaneous with balance in financial receipts and expenditures, heavy blows were dealt to speculative capitalists. The main method used was state grain purchases and purchase of excess grain to get hold of all grain. The period right after the lunar new year in 1950, the time when speculating capitalists were most active, was selected for the state dumping of grain at fixed prices on Shanghai markets. At first, the grain speculators believed a large amount of profits could be made so they borrowed money at high interest rates to buy grain. But after three consecutive days of buying up grain, the market grain supply continued in a steady flow. In order to repay their short-term high-interest loans, they had no choice but to shift from panic buying to dump sales and grain prices tumbled when they did so. The speculators were bankrupted and the government took firm control of market leadership.

It was precisely by working along the dual lines of both curing root causes and alleviating symptoms that we attained within a year's time a tremendous victory in stabilizing the economy and stabilizing prices, putting an end to the agony visited on the working people through 12 years of inflation during the period of Kuomintang rule.

B. Two price fluctuations occurred during the First 5-year Plan period. One was in 1953, the other in 1956.

The main reason for the 1953 price fluctuations was failure to achieve overall balance in government credit. In 1953, the country began planned economic construction. As a result of the great victories achieved during the recovery period, a tendency toward getting started everywhere at the same time, getting full-scale construction under way, and a blind headlong rush forward without concern for circumstances developed in construction work. This resulted in the planning of too much capital construction, and a 3 billion yuan surplus in financial revenues from the previous year had to be spent to defray expenses during the current year. Financial surpluses gained over the

years are the source of credit funds, and they have to be used to guarantee that the commercial sector has a certain limit of material reserves. Use of financial reserves acquired over the years put pressure on the banks' sources of funds, and this kind of mistake in distribution was termed "the same woman marrying twice." Bank insistence that commercial units repay loans pressured commercial units into "voiding their bowels" by selling off reserves of goods. At that time the country still permitted private commercial activity, so private merchants took the opportunity to hoard for speculation, and this resulted in a rise in prices. After the central leaders discovered errors in financial distribution, they immediately launched a nationwide campaign for increasing production and conservation in order to assure balance between government revenues and expenditures. At the same time, they assessed capitalist industries and businesses fees for wages, depreciation, fuel and taxes, supplementary materials and management, set prices for goods, narrowed regional price differences and price differences between city and countryside, narrowed and eliminated seasonal price differences for goods, readjusted wholesale and retail price differences, strengthened management of markets, attacked capitalist speculative activities and consolidated continued stability of market prices.

The main reason for the 1956 price fluctuations was an imbalance in funds and materials. As a result of the triumphal completion of the three great transformations during this year, the ideology of rash advances in an ious quest for success again raised its head. Disbursements for capital construction suddenly increased 58 percent over the previous year while the increase in government revenues during the same period was only 5.7 percent. During this same year, outlays for staff member and worker wages also got out of hand with total wage figures increasing 37 percent. An additional more than 500 million yuan was paid out in rural and other loans. The total bill for capital construction, wages and loans came to an additional nearly 3 billion yuan. In addition, prices of the means of production declined again, with the result that various construction materials, such as steel, cement and lumber, were in seriously short supply and national material reserves had to be dipped into. Supplies of the means of livelihood were also less than demand, so black market buying and selling as well as hoarding and speculation took place and this rippled into a rise in prices of some goods during early 1957.

In light of these circumstances, Comrade Chen Yun put forward "opposition to rash advances" as an urgent task, and proposed that the party and government launch a campaign of increased output and conservation, and proper retrenchment of investment in capital construction, thereby making supplies of the means of production correspond with the scale of construction, plus adoption of planned control of the speed of growth of society's purchasing power, thereby making supplies of the means of livelihood correspond with demands for being able to make payment. After the party and government took these actions, during the last half of 1957 the economy became stable and prices became stable.

The two price fluctuations of 1953 and 1956 were created by partial mistakes in work and were temporary in nature. As a result, the damage done to the

economy was not great, and after action was taken, the situation was turned around very rapidly.

C. The third major price fluctuation occurred during the 3 years of hardship following the "Great Leap Forward." At that time both industrial and agricultural productions had nosedived, and the contradiction between supply and demand was extremely acute. Supplies of consumer goods in 1961 amounted to only 87.9 percent of purchasing power. Survey data from 85 rural country fair markets nationwide showed country fair prices as being 220 percent higher than state-owned list prices in 1961, and 170 percent higher in 1962. Since purchasing power far outstripped supplies of goods, black market activities, speculation and profiteering were extremely rampant. As a result of the rise in costs, state-owned enterprises also raised prices in covert ways. Comparison of 1962 with 1957 showed a 25.8 percent rise in the overall national retail price index, most of which had taken place in 1961 when the index was 16.2 percent higher than during the previous year.

This great fluctuation in prices was brought about and exacerbated by "leftist" errors. By this is meant a tendency to effect a transition to communism prematurely in production relationships; and institution of high norms, ill-advised guidance, lopsided emphasis on taking steel as the key link and use of excessively high accumulations that exerted pressure on production and living standards in the building of production. This dampened enthusiasm for production among the broad masses of workers and peasants. In the production field, it caused a decline in production and a rise in costs. In the distribution field, there was preaching about "the theory of active balance" and abandonment of overall balance in government loans and materials. Gaps were left purposely, and the gaps were regarded as a driving force, with the result that society's purchasing power greatly exceeded goods that could be supplied. This created a devaluation of the currency and a rise in prices.

After having made a clear diagnosis of the source of the ailment, the party and government acted decisively, putting forward the eight character policy of "readjustment, consolidation, augmentation, and improvement" in 1962. This meant the institution in production and construction of a policy of "attention first to food, clothing and items used in daily life, and of setting priorities in agriculture," plus a policy "all-round balance." In production relationships, it meant a retreat from the system of ownership by communes and brigades to "trilevel accounting, with production teams as the base." The 60 Articles for Agriculture were published, and private plots were revived. This brought into line all proportional relationships in the national economy, production relationships thereby becoming commensurate once again with the level of development of productivity. This resulted in an arousal of the enthusiasm of the worker and peasant masses, creating the necessary preconditions for development of production, rise in labor productivity and stabilization of prices.

At the same time, the state took numerous actions to meet emergencies in price management. These included: (1) Resolute stabilization of prices of necessities used in the daily lives of staff members and workers. On

25 February 1963, the National Price Commission issued a list of 18 categories of items including grain, edible oil, cotton, knit goods, medicines, house rents and hydroelectric power. It ruled that the sale price of these necessities, which accounted for approximately 60 percent of staff member and worker living expenses, were to be stabilized at the existing level and remain unchanged. Were industries and businesses to lose money as a result of a rise in procurement prices paid or a rise in cost for these items, the state would make subsidies from public funds. (2) Resolute stabilization of agricultural product procurement price levels, with a lowering of the procurement price of certain farm products for which prices were overly high, and continued maintenance of a policy toward heavy industrial manufactures of "no fundamental changes and readjustments in individual cases." (3) Strengthening by the business sector of the planned supply of major consumer goods. Institution of a supply method of planned quantities of certain major consumer goods in short supply so as to guarantee minimal needs of each consumer. (4) Adoption of high prices to expand supplies of certain consumer goods such as high-quality candies, pastries and knitgoods that are not a part of planned quantities, plus the opening in cities of some top-quality restaurants, both for the purpose of getting money out of circulation and of satisfying consumption needs of strata having fairly high incomes. (5) Discussion to arrive at negotiated prices to promote the exchange of goods for goods making up approximately 40 percent of staff member and worker living expenses, most notably Category III agricultural and sideline products and some handicrafts using Category III agricultural and sideline products as raw materials. In addition, management of cash was to be strengthened and cash outlays controlled to control inflation, and there was to be greater management of country market trade and a channeling of it to make it close to planned prices.

Price stabilization policies pursued by the party and government during the 3-year period of readjustment were models of the synthesis of principles and flexibility. In his report on market problems of August 1961, Comrade Li Xiannian noted the following: Prices of some goods have risen during the past one-half year, and there is a fairly great gap between rural country fair prices and planned prices. We should not resort to all-round price rises in order to catch up with country fair market prices, nor should we return to the old road traveled prior to liberalization of rural country fair trade that stifled country fair trade prices. The only workable method is perseverance in taking planned prices as the key link while allowing free prices within certain limits. Planned prices should be stabilized on their present foundation, with only individual readjustments but no general changes made in them. Free prices should be allowed to rise and fall. Prices of Category III agricultural and sideline products and of handicrafts using some Category III agricultural and sideline products as raw materials should be negotiated prices arrived at through discussion based on whatever promotes development of production and exchange of goods, prices rising and falling. If prices of these goods are rigidly controlled, production will be hampered, and the more control the more production will be stifled. Only through development of production can the amount of goods increase and prices become cheaper. Today when industrial manufactures are in short supply, it is impossible to guarantee stable prices for these goods. Certainly, insofar as possible, we should actively use strengthening of market

control and exchanges of some industrial manufactures so that prices of Category III goods are kept within bounds to the maximum extent. One is able to discern that at the present time the party's policy is in principle no abandonment of a stable price policy, however, it has adopted circuitous tactics to achieve this objective. Very clearly the root cause of price rises lies in decline in production and excessive distribution. Whenever labor productivity rates fall, costs rise and output decreases; to suppose that prices can remain fundamentally unchanged is impossible. The laws of value cannot be changed by acts of human will. Given the country's resources, at the present time stable prices can only be limited to daily necessities in the lives of the people. Stabilization of these prices steadies both people's minds and the overall situation and buys time for readjustment of the national economy. When results of readjustment begin to show, overall price levels will naturally tend to fall. In this circumstance, flexibility does not mean abandonment of principles, but rather means more implementation of principles. If discussion to arrive at negotiated prices is not permitted for Category III goods, exchanges between cities and countryside will be blocked; it will be difficult to revive and develop production, and a fall in prices to former levels will be impossible. Unless a high price policy is pursued for some top-quality consumer goods, balancing of government receipts and expenditures will be difficult and one requisite for stable prices will thus be missing. All these policies have stable prices as their ultimate objective.

It has been precisely as a result of party and government institution of correct economic policies and price policies during the period of readjustment that the national economy has made a rapid turn for the better, industrial and agricultural production has gone up again very quickly and prices have gone back down to their former levels. Between 1963 and 1965, the national retail price index fell 4.8 percent. Survey data from 85 rural country fair markets throughout the country shows country fair trade prices in 1964 to have been only 27 percent higher than state-owned list prices. Prices of high priced goods gradually returned to their former prices, and goods in fixed supply also gradually became more available.

Experiences gained about stable prices during the 3-year readjustment period have been of extremely great significance. They demonstrate that price stabilization is impossible if a socialist country contravenes natural laws and economic laws in its leadership of production and construction. Conversely, once objective laws are understood and correct policies adopted for production, circulation, distribution and control, creating necessary conditions for stable prices, even should the environment become more straitened, revival of price stability remains possible. However, in addition to taking necessary action at all links of production, circulation, distribution and management, the carrying out of correct price policies is also very important. Had the party and government wavered in the practice of a stable price policy during the 3 years of difficulties, or had they become panic stricken and unable to withstand producers' general demands for price increases or abandoned their position of planned management, a vicious cycle of a succession of price and wage increases would have ensued and readjustment of the national economy would have become much more difficult. Moreover, when

adhering to a stable price policy, if one spurs production and circulation without understanding how to apply the laws of value, relying solely on administrative means, price controls can produce no good results. Administrative methods have their role in stabilizing prices; however, the role they play cannot be at variance with the economic foundation. Supposing a country has sufficient financial resources to provide consumer goods price subsidies, even if prices rise for Category III agricultural and sideline products and for handicraft industry products, their retail prices may also be made a part of the plan, so as to effect a stable policy. However, this cannot be achieved in reality, and when faced with reality, one can only adopt the aforementioned flexible countermeasures. When this is done, it is true that some high income strata will sustain losses for the time being; however, the basic needs of the overwhelming majority of the masses will be assured. As production revives and develops, prices will fall and, overall, advantages will outweigh disadvantages for the masses of people.

3. The Relationship Between Stable Prices and Regulation of Commodity Prices

China's experience with price work since the founding of the nation has shown that in order to adhere to a policy of stable prices, it is necessary to handle properly the relationship between stable prices and readjustment of prices.

Socialist countries' prices must be stable, and socialist countries' prices must also be readjusted.

What needs to be stable is the overall price level of retail goods; what needs to be readjusted is price ratios among all categories of goods. Readjustment of inequitable procurement prices for farm products and factory prices of industrial and mining products is required, as well as of rises and falls to regulate supply and demand.

The rationale that requires stable retail goods prices has been already discussed earlier. Readjustment of factory prices of industrial and mining products and of agricultural product procurement prices must be done for the following reasons:

First, in the process of producing industrial and mining products, savings in live labor and materialized labor are extremely imbalanced from one product to another. Systematic price ratio relationships for products established to make profits fair may become unfair in the development of production, requiring new readjustments.

Second, procurement prices for agricultural products affect the income level and standard of living of the broad masses of peasants, and they have a bearing on the alliance between the worker and peasant classes. An increase in agricultural product procurement prices is one way of narrowing the gap between workers and peasants, and this lever has to be applied under certain circumstances.

The foregoing two points are why price readjustments are required under ordinary circumstances. In addition, there are other reasons why price readjustments are necessary under special circumstances. For example, during the 3-year period of hardships, as a result of pervasive incorrect guiding ideology and work mistakes, continuous production fell and costs rose, making price readjustments necessary. Another example was the period of 10 years of turmoil when the price structure was wiped out, personnel were scattered and prices were frozen. Price ratios between industrial and agricultural products, price ratios between the raw and processed materials industry and processing industry products, and price ratios between old and new products became unfair, and problems piled up without being solved. In 1979, following the rise in agricultural product procurement prices, changes took place in the cost of industrial manufactures using agricultural products for raw materials giving rise to a need for readjustments.

Since retail prices have to be stable and since agricultural product procurement prices and industrial goods factory prices have to be readjusted, can the two be done without interfering with each other? No, they cannot. This is because there is an inseparable inherent relationship between costs resulting from agricultural product procurement prices and industrial manufactures factory prices that have a bearing on retail prices of goods.

When some comrades look at the mutual relationship and mutual effect of the two, they suppose that price adjustments, and particularly raising of procurement prices of agricultural products and the factory prices of industrial manufactures, will inevitably result in a rise in costs of goods sold at retail. Consequently, they counsel no readjustment of prices for the sake of price stability. Such a view is obviously one-sided.

Stable prices are not frozen prices. Frozen prices are set by administrative fiat and are temporary measures taken during extraordinary times; they positively cannot be maintained for a long period. Long-term frozen prices run counter to the requirement that socialist societies must continue to apply the laws of value in the production and circulation spheres. Long-term frozen prices result in inability to change inequitable price ratio relationships that come about over a period of time and that appear in the course of the development of production. This is bad for the advancement of production and circulation, bad for the stimulation of producer enthusiasm, and bad for carrying out economic plans. The broad masses of peasants are at once both producers and consumers. As consumers, they want stable prices; as producers, they want price adjustments. In this situation, it is the duty of the state both to stabilize prices and protect the interests of the broad masses of people in the consumption field and to use the laws of value to make equitable price readjustments and arouse the enthusiasm of the masses of workers and peasants in the production field. The people benefit from both, and it is not possible to take one in hand while losing sight of the other. The crux of the problem lies in correct handling of the both united and contradictory relationship of the two and to find an optimum method that looks after both at the same time under different historical conditions.

Can we coordinate the relationship of the two and find a suitable method that does not impair price stability while readjusting inequitable price ratios?

As far as the factory price of industrial manufactures is concerned, this is a problem that is fairly easy to solve. This is because the principal manufacturer of such manufactures is state-owned enterprises. Suppose the country's iron and steel mills ask for a price rise for certain kinds of steel products out of a desire to achieve equitable price ratio relationships. Inevitably, this will affect production costs in the machine manufacturing industry. However, since machine manufacturing plants are also state-owned enterprises, prices for machinery will not necessarily increase. Though no rise in the prices of machinery will reduce machine plant profits, nevertheless, on the overall national balance sheet, profits from iron and steel plants will increase, so what happens here is only an internal transfer of profits among state-owned enterprises, the state sustaining no losses. Consequently, so long as the state permits machine plants to scale down their profits to carry out their duties and adjusts properly the proportions of profit withholdings so that enterprises still make earnings, there is no need to increase the retail prices of machinery.

However, one cannot say that a rise in steel prices will not have any affect whatsoever on price stability. This is because steel users include both collective enterprises as well as nationally owned enterprises. The rise in prices of steel affects not only plan goods costs but also the cost of goods bought and sold at negotiated prices. Consequently, price fluctuations and a chain reaction may still occur to a certain extent, but it must be controlled.

In another realm, quite a few of the means of production are used in production and can be equally used in consumption. This is true of coal, lumber, etc., for example. If their factory prices are increased, their retail prices must inevitably be affected. If stable prices are a requirement, consideration must be given to such methods as allowing businesses to make profit, reduction or remission of their taxes, or providing them government subsidies in order to keep retail prices stable.

In the realm of industrial consumer goods, the state will sometimes have to raise prices of certain goods and lower the prices of others in order to regulate supply and demand or direct consumption. So long as these adjustments of rises and falls are handled well, the affect on overall retail price levels will be limited.

Readjustment of agricultural product procurement prices differs greatly in character from readjustment of factory prices of industrial manufactures. Since the system of ownership of agricultural units and industrial units differs, rises in agricultural product procurement prices is not just an internal transfer of profits. Such rises immediately affect the redistribution of net profits between consumption and accumulation and between the two systems of ownership. They can also affect the redistribution of consumption funds between workers and peasants. A rise in agricultural product procurement prices can affect overall retail price levels in the following ways:

First, after agricultural product procurement prices have been raised, if no changes are made in retail prices, an inversion will result between purchase and sales, and commercial units will operate at a loss. If the state is unable to provide government subsidies and must raise agricultural product retail prices, the overall retail price level will rise at this time.

Second, after the state has raised procurement prices for agricultural products and provides government subsidies for purchase and sales inversions and for loss operations, if it increases payments from government funds, the balanced budget will be lost and financial deficits will appear. This will lead to devaluation of the currency, which may also bring about an overall price rise in price levels.

Third, if the price rise is too high and there are no corresponding amounts of industrial manufactures for the peasants to buy with the money they have derived from the rise in procurement prices for agricultural products, the demands that peasant purchasing power make may outstrip the amount of goods that can be supplied. When supply of industrial manufactures is unable to meet demand, black markets usually appear and cause prices to rise for industrial consumer goods and for the means of agricultural production, thus having an adverse effect on overall price levels. Therefore, it is necessary to consider possibilities for supplying goods when raising prices of agricultural products.

Fourth, if internal price ratio relationships are unfair when agricultural product prices are adjusted, prices of certain agricultural products being raised too much with the result that prices of other agricultural products again appear to be unfair, this can give rise to a chain reaction of recurring price hikes that damages overall priced levels.

The first, second, and third of the four circumstances discussed above are problems of financial and materials balance; the fourth is a price ratio problem. Obviously, when agricultural product procurement prices are raised, for overall price levels not to fluctuate will require sufficient backstopping with financial and material resources and good organization of overall balance of financial and material resources. In addition, meticulous study of price ratio relationships among agricultural products will be necessary. Turned around, the four foregoing circumstances are circumstances that result from assuring no fluctuations in retail prices when agricultural product procurement prices are raised. This is an objective requirement of a socialist planned economy, therefore, the level of planning work has to be improved and mistakes guarded against.

China has consistently adhered to a single principle in its several increases in agricultural product procurement prices, namely, the need to guarantee no impact on living standards of urban staff members and workers. Consequently, we have always found ways for the state to bear the burden of agricultural product price rises without shifting it to urban consumers. We have tried two specific methods of doing this. One has been not to raise retail prices of agricultural products when a rise in procurement prices of agricultural products has brought about inversions between purchases and sales, but

rather have the country provide price subsidies to the commercial sector. The other has been to raise agricultural product retail prices, to reduce or abolish inversions between procurement and sale prices, and to provide wage subsidies to urban staff members and workers. Each of the two methods has its advantages and disadvantages. The advantage of price subsidies is maintenance of price levels unchanged; the shortcoming is losses for businesses. Unless suitable actions are taken, such as dividing up reduction of losses, arousal of the enthusiasm of the commercial sector to deal in such goods is difficult. The advantage of wage subsidies is elimination of the inequity of inversions between procurement and sale prices. The shortcoming of equitable procurement and sale price ratios is differences in staff member and worker consumption, differences in the burdens borne by households, difficulties with different kinds of households deriving equal subsidization, and particular difficulties in controlling price chain reactions. Wage subsidizes generally can only recompense losses to staff members and workers following in the wake of price rises for planned supply goods. However, nonplan supply goods can also rise in price, and this cannot be completely solved through wage subsidies. Thus, though the state spends money, staff members and workers will not necessarily feel satisfied, nor will the state be able completely to prevent redistribution of national income between workers and peasants brought about by a rise in prices of Category III products. Comparison of the two shows that the increase in payments by the state is substantially the same for either price subsidies or wage subsidies. However, wage subsidies cannot ward off price rise chain reactions. Though price subsidies have the shortcoming of being bad for administration and management, some economic and administrative actions can be taken to offset this shortcoming. Thus, price subsidies seem to be more desirable. Nevertheless, it is necessary to guard against too great a rise that goes beyond financial resources and results in financial red ink for the country, otherwise, price stability will be ultimately affected.

The foregoing analysis shows that a rise in agricultural product procurement prices can easily impact on price stability, and that a fairly large number of conditions are required to avoid this impact. Naturally, this raises the following question: Even though a rise in agricultural product procurement prices aims at increasing peasant income and narrowing the gap between workers and peasants, can some other measures be found to achieve the same goal? As far as prices are concerned, we feel there is a great deal to be said for lowering of the prices of both the means of agricultural production and of industrial consumer goods, and that results would be better than from solely raising agricultural product procurement prices in that they would not set off a price rise chain reaction. This requires both a consolidation and a strengthening of industries that support agriculture, efforts to improve product quality, increase in economic results, and lowering of production costs. Once success in these matters has been gained, the peasants will likewise derive real material benefits; it will also be possible to quicken the pace of agricultural modernization, and price stability can easily be consolidated. Besides, we spoke in Chapter 2 about dividing up the whole country into various natural zones and setting procurement prices for agricultural products by zone. This is also a way to reduce price adjustment chain reactions, and a way to promote price stability nationwide.

China's practical experience shows that price adjustment without ill effect on price stability is fairly easy to obtain when the national economy is developing healthily, but that chaos may occur during period of financial and economic difficulties. This is because financial and material resources are in straitened circumstances during periods of difficulties, and supply and demand are very unbalanced. Changes in plan prices may be easily exploited by a small number of opportunists to jack up prices, causing even greater difficulties for stable prices. For this reason, an extremely prudent attitude must be maintained when readjusting prices during such periods.

Let us review the history of prices in China. During the First 5-year Plan, the relationship between stable prices and price adjustments was handled rather well. In order to narrow the price scissors between industrial and agricultural products at that time, agricultural product procurement prices were raised 20.2 percent over the 5-year period (using 100 for 1952), and the retail price index for rural industrial products increased 2.1 percent. For the country as a whole, the total retail price index rose 8.6 percent, an average of 1.7 percent per year. However, because of an annual average 7.9 percent increase in wages of staff workers and workers, and an average 5.1 percent average increase in peasant income, the rise in real income for workers and peasants was substantial, and living standards improved. As a result, people's minds were at ease. This was one example in which stable prices and price readjustments were linked rather well. Some people suppose that maintenance of a stable price policy requires not the slightest rise in prices, and that an annual 1.7 percent rate cannot be considered stable prices. This is a metaphysical view. The focus in maintenance of basic price stability is on protecting the real benefits of the masses of people. Even though it may be necessary to readjust prices, it will scarcely be possible following readjustment for the new level not to be a little different from the original level; however, so long as the variation is not great, not only will material benefits of the masses of the people not be hurt, but they will rather be improved, thus indicating basic price stability. Insistently seeking after basic stability that remains on dead center, and spending a very large amount of effort demonstrating whether a price rise of 1 percent is basic stability or whether a price rise of 2 percent is basic stability without considering whether the people's standard of living has risen is a contravention of economic laws, and thus it not only lacks real significance but is harmful as well.

We also have fairly good experience in how to handle the relationship between stable prices and price readjustments during periods of financial and economic hardships. During the 3-year period of hardships following the "Great Leap Forward," very great damage was done to agricultural productivity, labor productivity declined and costs rose. In order to bring about a rapid revival of agricultural production, it was necessary not only to correct "leftist" errors, but also to adopt price measures in order to arouse peasant enthusiasm. The state took an extremely prudent attitude in reaching this decision. In his report of August 1961 on market problems, Comrade Li Xiannian noted the following: 1. Procurement prices for Category II agricultural products should adhere to the two-step method decided on by central authorities during January of the same year, i.e., a current year rise in

procurement prices for grain, edible oil, hogs, poultry and eggs, with further consideration during the coming year to raising the procurement prices of certain cash crops. Some places had acted too quickly, and where retrenchment was necessary, it was to be resolutely carried out. A rise in cash crop procurement prices should be gone about very carefully, so that grain prices would not again become a "basin." When industrial manufactures are in short supply, simply raising prices and handing out coupons to the peasants cannot genuinely benefit the peasants. If prices are raised too much, greater confusion will be created in prices. On the basis of this policy, agricultural product procurement prices were raised approximately 20-odd percent in 1961 and 1962, and the national retail price index rose 14.5 percent. This included an approximate 10 percent rise between 1960 and 1961. However, as a result of the policy of readjusting, restructuring, consolidating, and improving, using 1957 as the base period, procurement prices for agricultural and sideline products rose 28.5 percent by 1965, and retail prices of rural industrial manufactures rose 5.6 percent. The gross retail price level for the country as a whole rose only 8.9 percent. Very obviously, prices changed from a rise to a decline to their previous levels. During these several years, the people's standard of living and their real income also rose. Figured in terms of comparable prices, the annual average consumption level of residents in 1965 was 2.7 percent higher than in 1957.

A look at price work experiences during the 3-year period of hardships and the 1963-1965 readjustment period shows that when economic imbalance produces a decline, price fluctuations are difficult to avoid and price readjustments are also necessary. However, simply by stepping cautiously and acting within capabilities, price readjustment can become a force that spurs production. Once production revives and develops, the stage will have been set for stable prices at a new price level.

Some people maintain that as a result of several economic setbacks, price levels in the country have actually risen and it has not been possible to stabilize prices. They consequently advocate abandonment of a stable-price policy, replacing it with a policy of slow rise so that prices correspond in fact as well as in name. Such a view is not convincing. This is because handling matters in accordance with socialist economic laws means that prices can be stable, and the several price rises have been the result of the contravention of objective economic laws in the direction of economic work. Moreover, each time difficulties have been surmounted, the national economy has revived and developed anew, and this was not attained through the abandonment of a stable-price policy. On the contrary, it has been reliance on renewed understanding of objective economic laws and correct handling of the relationship between stable prices and price readjustments that has halted price rises and has restabilized prices. It is not difficult to imagine that when prices fluctuate during economic hard times, a departure in the guiding ideology from an overall policy of stable prices and a yielding to producers' demands for price rises will shake the bedrock of planned prices and lead inevitably to rounds of price rises occasioning greater difficulties for readjustment of the national economy and revival of economic order.

4. Current Stable Price Problems

Retail price levels have risen in China ever since 1979. Following the November 1979 rise in market prices of eight major nonstaple foods and other related goods, the overall national retail price index, consisting of both lists prices and negotiated prices, rose 5.9 percent in December as compared with the same period during the previous year. In 1980, the overall national retail market price index was 6 percent higher than in 1979 including an 8.1 percent urban rise, and a 4.4 percent rural rise. In 1981, the overall national retail price index was 2 percent higher than in 1980. However, since this price rise was concentrated toward the end of the year, and particularly since the extent of rise was very unbalanced from one region to another, mass reaction was fairly vehement at one period in certain places.

Though retail prices have risen each year since 1979, overall growth in staff member and worker earnings has been greater than the extent of rise in prices. Statistics show a 15-20 percent price rise for December 1981 versus December 1978 (the 20 percent figured on representative sampling data for actual staff member and worker living expenses), while staff member and worker earnings increased 24 percent, i.e., between 4 and 9 percent more than the increase in prices. The problem is that some staff members and workers earning fairly low wages, receiving slight bonuses or subsidies and having large families to support have been definitely hurt.

As part of its adherence to a stable price policy and consolidation of national stability and unity, on 8 April 1980, 7 December 1980, and 8 January 1982, the State Council notified the whole country to strengthen price controls, to halt random price rises and the raising of prices in disguised ways, and to consolidate negotiated prices in order to guarantee price stability. This notice and appropriate actions played a definite role in halting price rises. Following the January 1982 decision to lower prices for four kinds of industrial manufactures, in particular, people felt at ease and country fair market trade prices stabilized. However, continued consolidation of the current situation will require arduous efforts.

A rise in agricultural procurement prices and the retail prices of eight nonstaple foods could lead to a rise in price levels, and this was originally a part of plan. However, the scope and extent of the impact of this rise in prices was greater than had been originally forecast for various reasons as follows:

A. In the production field, state-owned enterprises' expansion of self-determination and institution of profit sharing played a positive role in spurring production, however, the use of tax levers was not promptly coordinated. In addition, some enterprises that did not devote efforts to improving product quality, increasing designs, colors and varieties, and to lowering expenditures used a rise in product prices as a shortcut to obtaining profits, bonuses, welfare benefits and accumulations, and some even resorted to underhanded methods, such as lowering of product quality, doing shoddy work and skimping on materials, concocting all sorts of pretexts and dishing up the same old stuff in new form, as means of raising prices surreptitiously.

B. In the circulation field, institution of market regulation and enlivening of the economic mainstream went off well, however, some regions, departments and units did not act in accordance with state regulations; they failed to expand properly the scope of negotiated procurement and negotiated marketing. Some places went all out in procurement and marketing at negotiated prices before fulfilling state procurement and allocation plans. Some state-owned and collective units also sent people into production areas to buy up goods, which jacked up prices and made impossible the fulfillment of production area procurement and allocation. There was a lack of necessary direction and control of prices of goods bought and sold at negotiated prices, with the result that prices of some goods rose steadily. Some shops also jumbled parity price and negotiated price goods, deriving illegal profits from the assault of negotiated prices on price ratios. Rough preliminary calculations show that the state had to make additional outlays for subsidies of 1 billion-odd yuan in 1980 for 19 leading agricultural and sideline products as a result of businesses having taken it upon themselves to raise prices, and because of the jacking up of negotiated prices in excess of state regulations. Some regions and units vied in the procurement of agricultural products in short supply (including timber), actual procurement prices frequently exceeding state set prices by between 20 to 50 percent or by even more than 100 percent.

C. In the distribution field, despite major efforts to curtail state investment in capital construction, as a result of insufficiently strict control over nonstate investment, control was lost in some cases or investment became overextended and accumulations continued too high. This, plus too great a growth in consumption, gave rise to improper distribution among the country, collectives (enterprises, communes and brigades) and individuals. As a result balance was lost between public finances, credit and material goods, and the issuance of too much currency created inflation.

In the accumulations field, since the 1981 decision to constrict investment in capital construction, budgeted disbursements have decreased, but loans have increased. According to incomplete statistics, all loan funds including those from the government and banks (including the People's Bank, Construction Bank, Agricultural Bank and Bank of China), and those issued by various sectors totaled nearly 20 billion yuan. These, plus those provided by enterprises themselves (including through the tapping of potential, innovations, and improvements), increased funds greatly, and, in reality, the total scale of investment in fixed assets was not controlled effectively.

In the consumption area, too many bonuses were issued. Bonuses drawn from banks amounted to 5 billion yuan in 1979, 6.7 billion yuan in 1980, and 7.5 billion yuan in 1981. This did not include coupons and goods issued to staff members and workers in the name of bonuses. In 1981, bonuses and "disguised bonuses" totaled approximately 9 billion yuan, which was more than twice the national payment required for a single-stage readjustment of staff member and workers wages. Unquestionably, bonuses have to be issued, but they should be coordinated with increased production. In 1980, bonuses increased 34 percent over the previous year. In 1981, they increased another 11.9 percent over the previous year, and although this was lower than the amount of increase in 1980, it was still 8 percent more than the increase in industrial and agricultural production. Obviously, this was improper.

In the agricultural product procurement price area, following the price increases of 1979, despite new changes in the list price and added price of grain and edible oil during 1980 and 1981, base prices used in state monopoly procurement declined yearly, on the one hand, while added prices and negotiated prices as a percentage of procurement became increasingly great, on the other hand. As a result, the actual procurement prices paid for grain, edible oil and cotton rose over the years and greatly exceeded originally set state plans.

The base figure used in China for state monopoly procurement of grain rose slowly up until 1972 and remained at substantially the same level from 1972 to 1979. The state monopoly procurement base figure was 7.2 percent less in 1979 than in 1978, and it fell another 1.7 percent in 1980 versus 1979. In 1981, it fell another 11.9 percent as compared with 1980. The situation in actual fulfillment of state procurement base figures was also not good. In 1979, only 94.6 percent was fulfilled, and in 1980, only 82.4 percent was fulfilled. Though natural disasters caused impairment, there were also problems in the way work was done, and there were cases in which prefectures took it upon themselves to reduce or suspend state procurement quotas without approval of the central government authorities.

As state procurement base figures decreased, the volume of excess procurement at added prices and negotiated prices greatly increased. During the past several years, the percentage of total grain, oil and cotton procurement purchased at list prices has been on the decline, while the portion purchased at added prices or negotiated prices has risen steadily. Statistics show the percentage of total grain procurement purchased at list prices in 1978 to have been 68.5 percent. In 1979, this figure fell to 49.5 percent, and in 1980 it fell again to 46.5 percent. Meanwhile, the percentage purchased at added prices and negotiated prices was 28.9 and 2.6 percent respectively in 1978, 42.2 and 8.3 percent respectively in 1979, and rose to 39.1 and 14.4 percent respectively in 1980. Obviously, the portion purchased at added prices and negotiated prices is more than half of grain procurement, and this is much greater than the extent of agricultural products procurement price rise originally set by the state.

Since state policy has been to raise the procurement price of grain, cotton and edible oil without raising retail prices, subsidization being provided from public funds, with the real rise in agricultural product procurement prices, public fund subsidies increased rapidly. In 1979, public fund subsidization of losses on grain, cotton and edible oil rose rapidly to 7.96 billion yuan, 4.18 billion yuan more than in 1978. In 1980, the subsidy increased again to 12.84 billion yuan, 4.87 billion yuan more than in 1979. An increase to 16.26 billion yuan is predicted for 1981. Total figures for state subsidization of 20 products was 7,868,000,000 yuan in 1978, 14,661,000,000 yuan in 1979, 20,891,000,000 yuan in 1981, and it is predicted that the figure will reach 32,175,000,000 yuan in 1981, or 32 percent of the national budget. More than 80 percent of these subsidies are related to agricultural product prices. Thus, the public treasure bears an ever-heavier burden of subsidies, that makes balancing of public receipts and expenditures very difficult.

A rise in agricultural product procurement prices must inevitably adversely affect costs of industrial manufactures that use agricultural products as raw materials. This factor is interrelated with the excessive rise in bonuses, which for state-owned enterprises amounts to a rise in production costs, and a reduction in profits paid to the state that hurts public revenues and also threatens the balance between receipts and expenditures of public funds in another sense.

In addition, a rise in the procurement price of major agricultural products inevitably produces a chain reaction on prices of Category III agricultural and sideline products and industrial manufactures. The state has no means of controlling prices of these products, and staff members and workers cannot help but be hurt by price rises.

Loss of control over negotiated prices and added prices for agricultural product procurement and over bonuses has also led to imbalances in social purchasing power and amounts of products that can be supplied. From 1971 to 1978, the average annual increase in social purchasing power was no more than 10 billion yuan, but in 1979 it suddenly increased 33.9 billion yuan, and it increased 37.6 billion yuan in 1980. Despite control in 1981, it still increased 19.68 billion yuan, however, sources of supply of products lagged behind growth in social purchasing power, and this resulted in a dramatic imbalance between goods supply and demand, and became a factor in price increases.

To summarize the foregoing, the way to get stable prices now is by stimulating production, controlling capital construction, regulating demand and taking a firm grip on control.

Stimulation of production is the bedrock of stable prices. Currently the agricultural production situation is very good, so country fair trade prices are stable, with prices of some goods declining very slightly before the lunar new year. In Beijing farm trade markets, raw peanuts sell for 1 yuan per jin and roasted peanuts sell for from 1.15 to 1.20 yuan per jin, which is near the selling price in grain shops. Eggs cost 1.30 yuan per jin, which is slightly higher than the list price. More or less the same situation prevails in other cities. The price of fresh vegetables has risen, however, as a result of inability to meet demand for quantities and kinds. Clearly, production is a decisive factor for prices. A firm grip on fresh vegetable and live hog production is an urgent priority.

Most important in industrial production is improvement of economic results, lowering of production costs and insuring sales of goods that satisfy needs. In 1981, industrial output was up 4 percent over 1980, and availability of consumer goods increased 23.9 billion yuan, exceeding the amount of increase in purchasing power for the same year (19.68 billion yuan), however some product quality was bad, and specifications and varieties did not meet needs, so increased output accumulated unsold in inventory. Statistics show that as of the end of last year, unsalable goods in storage had increased by one-fourth over the end of the previous year. Gross value of eight kinds of excess goods in storage, namely, mixed textiles and chemical fiber

fabrics, wristwatches, transistor radios, stockings and pens, amounted to several billion yuan. If the "water" is wrung out of gross output value, last year's speed of growth of effective products was lower than 4 percent. This fully demonstrates that to ignore economic results is to bring real calamity down on one's head while seeking an undeserved reputation. It creates "industry reporting good news, business reporting concern, stocks accumulating in warehouses and false public revenues." It is also bad for a stable economy and stable prices.

Proper reining in of capital construction must not be relaxed in the slightest at the present time. The important point here is strengthening of overall balance, and opposing decentralization. There are too many channels for funds today: government funds, credit funds, funds that enterprises provide themselves, and all kinds of social funds as well as foreign funds that are introduced in various ways. Without centralized planning, each trade going its own way, efforts to treat the whole country as a single chessboard will be damaged, duplication of construction will be created, and the balance of funds and materials will be broken. This is a reason both for increased tension between market supply and demand and a root cause for lack of high economic effectiveness. When capital construction is overextended, not only is there an impact on the means of production but also on the means of consumption as well. Today, we positively cannot be content with controlling capital construction within budget, but rather we must increase control over capital construction outside of budget as well as capital construction using loans. This is an important aspect of both increasing economic results and guarding against inflation.

Regulation of demand should be particularly watched today. Comrade Chen Yun has always advocated concurrent concern for production and living standards. At the 25 January 1982 symposium on problems in intensifying planned economic work, he made a further incisive exposition of this policy. He said, "The people's standard of living has to be improved. First they have to eat; they have to get enough to eat; and they cannot eat too poorly. But they cannot eat too well either. Second is the need for construction. A country that eats up and uses up everything is a country without hope. There can only be hope if the country has some excess strength for construction after everybody has had enough to eat." In order to correct past mistakes of high accumulations and low consumption, the rise in wages and the rise in agricultural product procurement prices in the wake of the Third Plenum of the 11th CPC Central Committee have been necessary. However, since fairly large strides have been taken, the limits that public finances are able to bear have already been exceeded. Today revenue is declining yearly as a percentage of national income. In 1978, revenue was 37.2 percent of national income. In 1979, it declined to 32.9 percent, and in 1980 and 1981, it declined further to 29.4 and 28.2 percent. It has been estimated that if revenues fall to below 25 percent of national income, maintenance of expenditures from revenues will become impossible, to say nothing of expanding the scale of construction. This assuredly is not what the people of the whole country hope for.

No matter whether one starts with a balance in receipts and expenditures of revenue or from stable prices today, it is necessary to take firm hold of

the link of stable agricultural product prices. This is because more than 60 percent of what the country's residents spend is for food, including more than 45 percent for grain and nonstaples. Moreover, an important reason for the decline in government revenues has been steady increases in the subsidization of agricultural product prices. Thus, control of monopoly procurement, assigned procurement and negotiated procurement prices must be intensified. There can be no further reduction in monopoly procurement base figures. Once new producing areas have been farmed for 3 years, equitable procurement base figures are to be set; there can be no long-term overall practice of paying added prices for excess procurement. A system whereby base figures for grain and edible oil procurement and marketing has been made the responsibility of individual areas has already been instituted, and this should help control increases in government subsidies as well as stable prices.

It is necessary to level with the peasants, explaining how the state has exerted maximum efforts in the use of public funds during the past several years to improve peasant livelihood. Peasant hardships are a fact, and that differences between workers and peasants still exist is also a fact. However, in view of China's circumstances, for the peasants to rid themselves of poverty will require a long period of arduous struggle; they cannot vault upward in a single jump. A state increase in agricultural product procurement prices amounts to a redistribution of national income without any increase in social wealth. Only through reliance on the peasants themselves to develop production, to raise labor productivity rates, to lower costs, to expand economic diversification, and to march forward in production in breadth and in depth can the peasants and society as a whole become truly wealthy. In the relationship between industry and agriculture, industry should support agriculture, however, China's level of industry is currently backward, its efficiency not high and its accumulations limited. Naturally, industry has to strive to increase output while practicing conservation and to expand accumulations, however, if the wealth created by more than 100 million staff members and workers is to be transferred to the peasants for use in improving their standards of living, this will amount to looking after one thing only to neglect another. The advantages the peasants gain will not be large; national construction will be the loser, and this will be bad for long-term interests. In his report to the 12th CPC Central Committee, Comrade Hu Yaobang pointed out that improvement in the living standards of urban and country people alike can be achieved only through development of production and not through depletion of funds that are indispensable to the country. This is the guideline that we must follow.

In order to effect control, the need at the moment is strict implementation of the State Council notice of 8 January 1982 on firm stabilization of market prices. The state has stipulated no increase in retail prices for list-price commodities, and retail prices of negotiated-price commodities may only go down, not up. It has organized departments concerned to undertake a major examination of prices, and it has organized the masses to uncover and report to the authorities violations of the notice, economic punishments and administrative actions to be meted out against units found to be in contravention. In serious cases, suspension of operations will be ordered and suits filed by legal departments. Resolute action will be taken against speculators,

profiteers and those who jack up prices. Especially serious attention must be devoted to control of agricultural product prices, and prices of agricultural products must be placed under guidance of the state plan. There must be a resolute halt to violations of state-prescribed policies, arbitrary raising of prices, increases in subsidies, and the scope and extent of increased prices for excess procurement as well as the jacking up of prices.

Some people may ask whether such action does not amount to the use of administrative methods to freeze prices? Is it not possible to readjust unfair prices? We regard this as a problem of correct handling of the dialectic relationship between stable prices and readjustment of prices. Certainly prices have to be readjusted, however, under present circumstances, readjustment of prices must be subordinate to stable prices. This is because, first of all, price readjustment work has already taken a step forward during the past several years, and the problem of overly low prices for agricultural products has been substantially solved. Over the near term, agricultural product prices will have to be stable for the most part. There are still numerous problems awaiting solution in the industrial manufactures area, but conditions are not yet ripe for comprehensive readjustments. The first requisite condition is consolidation of enterprises. Problems are numerous today in the management of industrial enterprises. Except for a small minority of old industrial plants in which the economic accounting system is fairly well perfected, a state of general slackness and chaos exists. There are no norms for the consumption of raw and processed materials; no record is kept of results; amounts of imported goods are not figured up; and there is no strict accounting of prices. As a result, costs are very inaccurate. Without accurate cost figures, a scientific basis is lacking for price readjustments. Consolidation of enterprises and perfection of cost accounting is a necessary prerequisite for price readjustments. The second requisite condition is economic stability. The country's historical experiences attest that opportunists frequently make ready use of price readjustments during periods of financial and economic hardships. They take the opportunity to add fuel to the flames and stir up more disorder. Thus, stability is paramount under these circumstances. Inequitable price ratio relationships that are bad for production and circulation may be somewhat offset through the use of internal prices, government subsidies and reduction of taxes to permit profits that do not affect price stability in order to gain time to rally strength and prepare the necessary financial and material resources for price readjustments. Though readjustment of the prices of products of state-owned industries is frequently a matter of internal transfer of profits, nevertheless, it may reduce national financial revenues and increase national financial expenditures. Thus, there must be financial resources to provide backstopping. The third requisite condition is an equitable price ratio relationship within and among trades and industries, meticulous comparative study and genuinely workable centralized planning of the steps to be taken in readjustment, with step-by-step implementation over a period of time. One should not imagine that it will be possible to accomplish price readjustments with a single stroke. Instead, it will be necessary to set priorities and carry out the task in an orderly manner. For example, after prices of the means of production have been dealt with, the means of livelihood should be next. Problems with pricing of the means of production that do not have much bearing

on retail prices should be solved first, followed by solution to prices of the means of livelihood that have a bearing on the people's standard of living, etc. Time must be spent in preparing and studying these actions.

5. The Key Is Overall Balance

The importance for stable prices of control over capital construction and regulation of supply and demand was explained in the foregoing. What yardsticks should be used for curtailment and control? This yardstick is the seeking of truth in facts, and proceeding according to capabilities. Furthermore, an accurate method must be used to achieve this, and that accurate method is overall balance. At the present time, achievement of overall balance particularly entails emphasis on the formulation of overall government financial planning. This is an important condition for stabilization of the economy and stabilization of prices.

A look at the history of the country's prices shows the several major and minor price fluctuations to have been not only a problem arising out of disproportions in production, but rather a problem resulting from distributions having outstripped national capabilities and leading to a loss of balance among public finances, credit and goods. This was caused by impatience to achieve results that led to public deficits and bank issuance of banknotes, which give rise to imbalances between production and demand and caused price fluctuations. It was against this historical background that Comrade Chen Yun summarized a theory of overall balance among government revenues, credits and goods in 1957. However, the importance of overall balance is not generally appreciated by people. Because of the lack of unanimity in understanding the problem of methods of achieving overall balance have also not been completely solved. This is a problem in the country's planning work that is in urgent need of solution.

Capitalist countries have also given a very great deal of attention to this point. Take the United States, for example. Formerly, the United States pursued Keynesianism, using budget deficits and inflation to stimulate so-called effective social demand that undermined the nation's wealth and brought about an awkward situation of stagnation in production, inflation and loss of control. They also learned a lesson from this debacle, namely, the need for a balance between capital and goods. Today, they annually prepare a "capital-flow balance sheet" on which government, bank, enterprise and private individual savings, and the amount of investment to be made are figured up in order to derive a balance between savings and investment. Of course, they use the system of private ownership as a basis and do not practice planned control. Nevertheless, they use forecasting, and they study the balance between savings and investment, so they can find a policy basis for government interference in the economy. Whether they will be able to solve their economic crises, given the inherent contradictions of the capitalist system, is another matter.

The problem we face today is a need to solve the problem of overall balance of public revenues, credits and goods from theory to implementation. This problem is more urgent today than at any time in the past, because matters

are different today than formerly. Ever since the Third Plenum of the 11th CPC Central Committee, a very great improvement has taken place in the economic system: local financial authority and financial resources have increased; the peasants have more money in their hands; staff member and worker savings are greater than formerly, and channels for funds are now more interconnected. Such a situation is good. Because everyone has money, the economy has become vital, the enthusiasm of all can be brought into play, and general methods can be suited to specific situations to develop production and to improve standards of living. However, it must also be realized that without a strengthening of guidance, decentralization of financial resources can also bring about extreme waste, and the multiple channels can damage overall balance and adversely affect the planned economy.

Budgets are the heart of overall government financial plan formulation, with overall planning being done for all fund activities in the reproduction process. This is not a concentration of all funds in the government treasury, but rather is a strengthening of guidance on the basis of national programs, policies and plans, so that the direction of movement of funds is in accord with national needs, so that distribution of funds is not greater than the amounts of real goods, and so that the structure of funds distribution and the structure of real goods are dovetailed. This is not only the road that has to be traveled in order to increase effectiveness from the use of funds, but is also the road that has to be traveled to realize economic stability and price stability.

The total annual amount of the country's industrial and agricultural products and the amount of national income and financial revenues are quantitatively limited. There are many things we want to do, but needs and capabilities will be in conflict for a long period of time. The nation needs economic construction, and the people want improvement in living standards, so investment in capital construction has to be expanded, wages and bonuses have to be increased and agricultural product procurement prices have to be raised. However, there is only so much national income. It is like a bowl of rice; nine people cannot eat the amount intended for three. Deficit spending and issuance of banknotes are tantamount to turning rice into gruel; the amount is greater but nutrition has not increased. It may seem possible to feed nine people with the rice intended for three, but if this is done over a period of time, sickness will inevitably result as a result of poor nutrition. Therefore, if debilitation of the national economy as a result of distribution errors is to be avoided, it is necessary to figure out the overall balance of funds, carefully figure out the total amounts of public funds, loan funds, enterprise funds and foreign funds available, and how many things have to be done. Then, it is necessary to decide which things relating to long-range plans for modernization and to specific current conditions should be done first and which later, and to subordinate action to centralized direction of state plans. Allowing individual enterprises to go their own individual ways, emphasis on bonus payments by those charged with controlling wages, emphasis on price rises by those in charge of agriculture, and attracting funds from any and all sources by those charged with economic construction is positively not to be allowed. Priorities must be set one by one in a set order of precedence. Disregard of balanced accounts and

deficits (including public fund deficits and loan deficits), and working along several lines at once on prices, bonuses, capital construction can no longer be done. It is necessary to remain clearheaded, to see and think clearly, to be watchful, and not to be driven by blindness in overall planning of public revenues.

Only through good overall financial planning can funds be used in the right direction, can there be a division of labor and cooperation in the organization of funds in all quarters, and can there be a dovetailing of money and goods and overall dovetailing to achieve due caution and a balance between supply and demand. This is a requisite for smooth carrying out of social reproduction, and it is also a requirement for a stable economy and stable prices. We must strive creatively to achieve this.

Chapter 5. Problems With the Price Management System

1. Price Management Is an Important Function in Socialist Countries

Conscious application of the laws of value and price levers for development of the national economy and improvement of the people's standard of living is the superiority of the socialist system. This consciousness is embodied in nationally formulated price policies, and the carrying out and implementation of price policies must be done through price controls. This is a way in which the socialist system differs from the capitalist system.

Capitalist production, which has as its goal a quest for excess value, is controlled by the spontaneous functioning of the laws of value, and free rises and falls in prices signal movements for capitalists and decide success or failure in competition among them. Thus, capitalists regard price freedom and freedom in buying and selling as the lifeline of capitalism. They demand that the state as representative of this class protect this freedom and not interfere with this freedom. State interference in prices is desired and countenanced by capitalists only in wartime and under special circumstances.

Under socialism, price control is an important function that the state must carry out. This is because of the following:

A. Formulation of prices requires socially recognized standards, and the welfare of the whole society must be taken into consideration.

Socialist reproduction is the unity of the reproduction process and the circulation process. Products that enterprises produce must be able to compensate costs in exchange and provide a fair profit as well. This is a condition for arousing the enthusiasm of producers to make the river of reproduction flow continuously. However, among socialist enterprises no spontaneous mechanism exists to produce production prices and average profits through competition. What costs should be used as the basis for figuring product prices? Maximum cost, minimum cost, or in-between cost? How much profit should product prices include? Should it be average profit or differential profit? These are problems that individual enterprises cannot answer. The socialist economy also does not permit individual enterprises to proceed from their parochial interests to set planned price standards as they see fit, which would lead to the creation of confusion in planned circulation of goods. Thus, the state must shoulder responsibility for formulating unified standards for setting prices.

In formulating these standards, the state must consider not only the interests of producers, but must also concurrently consider the interests of consumers as well as the overall interests of the country. For this reason, planned price standards adopted for different categories of goods may also differ. Moreover, these differences are by no means ones about which individual enterprises can make correct judgments on the basis of their parochial position. They require that the state make overall plans taking all factors into account on the basis of the history and current status resulting from price distribution.

B. Readjustment of prices requires consideration of the relationship of price levels and the overall balance of financial and material resources.

A definite price structure reflects the mutual distribution relationships existing between the state and enterprises, the state and staff members and workers, the state and peasants, workers and peasants, and enterprises and enterprises. Price readjustments must inevitably lead to a redistribution of national income among all groups in society; thus it positively is not a simple price change, but rather something that can give rise to political consequences and affect changes in interests. This requires that before price readjustments are carried out that there first be a full appraisal of the effects on the interests of all quarters once measures have been adopted. It is necessary that price adjustments help spur production and help stability and unity rather than do the opposite. This task is obviously not one that can be completed from the parochial standpoint of producers or consumers. It requires that the state make correct judgments and proper arrangements from its overall standpoint.

Readjustment of prices, and particularly a rise in agricultural product procurement prices and retail prices for industrial manufactures, must inevitably have a corresponding affect on consumers' purchasing power and the consumption level of the populace. Its results will bring about a redistribution of national income between accumulation and consumption. Thus, when levels of consumption of the populace increase, a curtailment of the level of accumulation by the state is bound to occur; otherwise the amount of distribution of national income would break through the amount of national income created, with the result that inflation and prices would rise.

On the other hand, once the purchasing power of the populace has risen, the supply of consumer goods must keep pace. If a very large gap exists between purchasing power and the supply of consumer goods, supply will not meet demand, and this will lead to price fluctuations. Obviously, readjustment of retail prices must be carried out properly on the basis of state organization of overall balance between financial and material resources.

Readjustment of prices for the means of production and readjustment of retail prices are not identical in nature. Since most of the means of production are produced by state-owned enterprises, readjustment of factory prices is basically a transfer of net income among enterprises and does not affect national income. However, it has an extremely great bearing on the guidance of enterprises' planned production and strengthening of their economic accounting. This includes a portion that may be used in both industrial and agricultural production and may also be used for consumption by the people. Such price readjustments cannot avoid having an effect on consumers' interests, thus, overall planning must be done by the state.

C. Stable prices entail not only reliance on state application of economic levers and public financial levers, but also reliance on state strengthening of control and supervision.

Stable prices are a fixed state policy, but price stability positively cannot be obtained by standing with one's hands at one's sides. It has a

premise overall balance among public finances, credits and materials, and it requires public fund subsidies and adjustment of tax rates for coordination. Therefore, stable prices require that the state apply various kinds of economic methods and financial methods to bring about regulation. This is the only way to assure them.

When prices are not stable, not only will prices rise in the overall economy, but problems will also be created by enterprises and the grassroots. For example, some places violated national regulations in one-sided concern for peasant interests. They arbitrarily reduced monopoly procurement base figures, and increased the ratio of added prices and negotiated prices in the total amount of procurement. Some enterprises proceeded from the interests of just a part of the whole in retail prices for industrial manufactures. They used price increases or concealed price increases that damaged the interests of consumers in order to retain more profits. A few lawless elements engaged in speculation, profiteering and the jacking up of prices in country fair trades. It is necessary to control and supervise all such unhealthy tendencies that impair price stability and to effect restraint through the use of laws. These are all responsibilities that the state must bear.

Price controls are an important function of socialist countries. Special organizations must be set up to carry out controls. Beginning with the Second 5-year Plan period in China, the central government and local government at all levels gradually began to set up special price organizations that studied price policies, and that exercised control and supervision over the formulation of prices, price readjustments, and price stability, playing a beneficial role. However, during the period of the 10 years of turmoil, as a result of the disruption caused by "leftist" ideology, price organizations were abolished and price control work was seriously weakened. At that time, the guiding ideology denied the important role of the application of the laws of value in development of a socialist economy, and prices were simply frozen. As a result, inequitable price ratios resulting from production changes could not be readjusted promptly and problems mounted up with bad consequences for development of industrial and agricultural production and the circulation of goods. This was a lesson. This also demonstrated that state control of prices is indispensable in a socialist society.

Price controls are an administrative device. However, this administrative device must be founded on a correct understanding and application of objective economic laws. Some people believe that there should be little use of administrative devices for price control, and that the laws of value should be used a lot. This is a conception that pits administrative devices against the laws of value. The two situations should be distinguished. One is administrative devices adopted on the basis of a correct understanding and application of the laws of value and other economic laws; the other is an administrative device adopted on the basis of the contravention of the laws of value and other economic laws. The former situation is indispensable at any time; the latter situation must be opposed at any time. Many measures that are regarded as administrative devices, such as planned prices, fixed quantity supply, monopoly procurement, and assigned procurement, contravene price laws in the eyes of some comrades. They do not understand that at certain

historical periods these measures are controlled by basic economic laws and the laws of planned development, and the specific application of the laws of value. Fixed-quantity supply cannot be abolished because were it not for this form of control the basic needs of the broad masses of people could not be assured. Monopoly procurement, assigned procurement and planned prices cannot be abandoned because without these controls, prices would fluctuate spontaneously; the people's livelihood would not be stable then; consumers would curse, and very possibly overall balance would be destroyed leading to chaos in economic life. Permitting enterprises to set prices freely for certain industrial manufactures apart from state stipulated unified prices, and permitting negotiated prices for certain products outside of agricultural product monopoly procurement and assigned procurement also amounts to application of the laws of value; however, this is not tantamount to the abandonment of administrative controls over free prices and negotiated prices. In socialist countries, price freedom is limited. These limits do not hurt the interests of the masses and the country. When these limits are exceeded, it becomes necessary to intervene with administrative devices. The main role of state control here is to prevent price law spontaneity and a clash with basic economic laws as well as plan law requirements.

Since socialist countries have to control prices, it is necessary to establish price control organizations. Price control organizations must handle two relationships in the main. One is the relationship of the unity of opposites between planned prices and free prices, and the other is the relationship of the unity of opposites between the centralization of state power and the decentralization of state power. The goal of proper handling of these two relationships is to control without killing, and to vitalize without fostering chaos.

One must handle the relationship of the unity of opposites between planned prices and free prices. This is because, in view of the country's present level of development of productivity and level of planning, the state is unable to formulate plan prices for each and every product. Planned prices can be limited only to major industrial and agricultural products that bear on the national economy and the people's livelihood. Consequently, there are free prices outside of planned prices that are guided and controlled. If the relationship between the two is handled well, they can be mutually promoting. If not handled well, they can interfere with each other. This takes a lot of knowledge.

We must also handle well the relationship of the unity of opposites between the centralization of state power and the decentralization of state power. Price controls require centralization because a planned economy requires treating the entire country as a chessboard, instituting unified policies and systems. Price controls also require decentralization because the country is too large, with very great disparities existing among regions, sectors, production and circulation. With centralization and no decentralization, regions and sectors could not proceed from their actual circumstances in the implementation of national unified policies and systems. How to handle well the relationship between centralization and decentralization under a unified policy so that they will be mutually promoting also takes a lot of knowledge.

2. Correct Handling of the Relationship Between Planning and Laissez-faire in Price Management

Our price control system must be compatible with the total economic control system, and it must correspond particularly with the forms of control of goods and materials in the economic control system. Consequently, the relationship between planning and laissez-faire in the price control system should be basically in concert with planned circulation and free circulation in the flow of commodities and goods. Changes in the form of circulation of commodities and goods must inevitably result in changes in the relationship between planning and laissez-faire in the price control system.

In China, the means of consumption and the means of production that have gone through material supply and marketing units are commodities. China has two major commodity flow systems, namely, commercial units (including supply and marketing cooperatives) and means of production materials management units.

A. Commodities from commercial units may be divided into three large categories in terms of their form of circulation.

Category I commodities are most important goods and materials bearing on the national economy and the people's livelihood, such as grain, edible oils (fats and oils), cotton, cotton yarn, cotton cloth, gasoline, diesel fuel, grease and coal. In order to regulate supply and demand of these commodities in a planned way, their purchase, marketing, allocation, storage, export and import is centrally controlled by the state. The state exercises monopoly procurement and monopoly marketing of these commodities.

Category II commodities are fairly important commodities having a bearing on the national economy and the people's livelihood or those whose production is centralized or that are supplied over a broad area, and those whose production is scattered requiring that key points be assured, as well as important commodities required for export. They include commodities such as live hogs, fresh eggs, jute and ambari hemp, ramie, silkworm cocoons, hair and wool, hides, moso bamboo, coir fiber, chemical fertilizer, pesticides, wire, nails, sewing machines, bicycles, certain pharmaceuticals and Chinese herbs. The procurement, marketing, allocation, storage, import and export of these commodities is controlled by pertinent commissions of the State Council, and the state carries out centralized procurement, assigned procurement or monopoly marketing policies for these commodities.

Category III commodities are all commodities other than Category I and Category II commodities such as sundries, aquatic products from scattered production areas, dry fruits, such as nuts, day lily buds and edible tree fungi, and fresh fruits, condiments, small native craft products, and odds and ends of Chinese medicinal herbs. There are numerous kinds of these commodities and their production and marketing situations are complex and rapidly changing, so their production, procurement and marketing are taken care of by local areas or enterprises themselves. This category of commodities is selectively procured by commercial units or marketed by producers themselves.

Plan prices are in effect for the monopoly procurement and monopoly sale of Category I commodities, the procurement and marketing prices being centrally set by the state on the basis of quality. Plan prices are also used in the monopoly procurement and assigned procurement of monopoly marketing of Category II commodities, the procurement and marketing prices being likewise centrally set by the state. Plan prices are used for all Category III commodities dealt in by state-owned commercial units, prices for sundries being agreed upon through discussion between industrial and commercial enterprises, and free prices being used for commodities sold in the country fair trade but still being subject to state price controls.

In China, peasants may sell in rural country fair markets and in rural trade markets in cities the agricultural and sideline products produced on their private plots as well as all products remaining after fulfillment of their monopoly procurement and assigned procurement quotas, selling them directly to consumers. Prices are arrived at between buyer and seller. Country fair trade prices are regulated to a very large extent by supply and demand, however, since they are for only a small percentage of goods, and are affected and restricted by plan prices paid by the state in monopoly procurement and assigned procurement of agricultural products, these prices differ from the free prices of capitalism.

Ever since institution of the three major socialist transformations [the socialist transformation of agriculture, handicrafts, and capitalist industry and commerce during the period of transition completed by the end of 1956], the state has several times tightened and relaxed the relationship between plan and free prices as commodity flow channels changed.

In the process of socialist transformation, in order to help put capitalist industries and business on the track of socialism, since there were more channels for the circulation of commodities that were blocked than were open, and since the percentage of commodities that were monopoly procured and monopoly marketed was great while the percentage that were procured and marketed at negotiated prices was small, the scope of planned prices was also correspondingly relatively large. After the socialist transformation of capitalist industry and businesses achieved decisive victory, the state promptly readjusted the scope of monopoly procurement and monopoly marketing, stipulating a gradual halt to the monopoly procurement and monopoly marketing of countless sundries used in daily life and substituting selective procurement. Commercial units had authority to make priority selective procurement of all commodities in the selective procurement category. Commodities not included in selective procurement or selective surplus could be sold by industrial plants themselves or else consigned to commercial units for sale on their behalf. In addition, small native products, which had formerly been limited to purchase by private traders in elementary markets in order to prevent capitalist speculation, were centrally procured by supply and marketing cooperatives. Following completion of the three great socialist transformations, a change was made whereby state-owned shops, cooperative shops, cooperative teams and supply and marketing cooperatives in all jurisdictions could freely buy and freely transport such products for sale, and mutually blockading was prohibited.

Once sundries used in daily life were permitted to be selectively procured and freely sold, and small native products could be freely procured and freely transported for sale, a corresponding liberalization of planned control over the prices of these commodities was necessary. Some people were apprehensive at that time that these policies might lead to price increases.

At that time, Comrade Chen Yun pointed out that following liberalization of market controls over some small native products and a change to free purchases and free transportation for sale, procurement prices might rise initially so there would be no choice but to raise prices correspondingly in cities. It should be realized that without adoption of a policy of free procurement and free transportation for sale and a continuation of local supply and marketing cooperatives or state-owned businesses being allowed to monopolize procurement, output of many native products would decrease. Were supply of small native products be unable to meet urban demand for them, and were the government to be unable to offer them for sale, those requiring small native products would raise procurement prices in markets. It should be realized that the rise in market sale prices of some small native products as a result of free procurement and free transportation for sale would be a temporary phenomenon, and that we would be unable to restrict the degree of rise. These price rises would spur increased production of small native products, and once supply and demand had become equal, their prices would fall to normal levels. We should adopt free procurement and free transportation for sale, and we should not fear a certain degree of temporary price increases. We must avoid skyrocketing of prices resulting from a decline in output. Market prices must be subordinate to procurement prices. Only large-scale increases in output can maintain stability of market prices as a whole.

Following completion of the three great transformations, this policy that Comrade Chen Yun enunciated for socialist planned production, socialist commodity flow and socialist price control was one of "big plan and small freedom." Not only did Comrade Chen Yun set forth clearly the theoretical advantages for the development of production from institution of this policy, but he also found the proper scope and quantity limits for plan and free supply. This policy fully suited China's national circumstances, and its correctness was attested in practice.

However, "leftist" errors during the "Great Leap Forward" and the "Great Cultural Revolution" brought this correct policy under attack. Selective procurement and free marketing of small sundries never developed fully. Free procurement and free transportation for sale of small native products completely aborted as a result of endless rural transition and cutting off of the tail of capitalism. Even free markets in rural market towns were nearly extinguished. In the circulation field, the numerous channels that had once existed were blocked. Prices seemed stable on the surface, but the colors, designs, and varieties of consumer goods became increasingly monotonous and in short supply; some small native products bordered on extinction, and the needs for materials of the people in many areas could not be satisfied. This was an evil consequence of the throttling of small freedom.

Since smashing of the "gang of four," and particularly since the Third Plenum, the issue of the relationship between the planned economy and market regulation has arisen, and preliminary reforms of the economic system have been carried out in the direction of vitalizing the national economy. With expansion of enterprise self-determination, the extent to which enterprises may sell industrial manufactures themselves has increased in cities. Numerous enterprises have set up shops or trial booths in which they sell their own wares, and they have held exhibitions and sales fairs. In rural villages, the former situation in which native specialities were centrally procured by supply and marketing cooperatives has been broken. Industrial and commercial businesses and cooperative organization may go into the countryside to buy goods, and commune and brigade enterprises may also go into cities to sell their own products through joint agricultural, industrial and commercial enterprises, and through trade warehouses. Large and medium cities have universally set up rural trade markets to which peasants may bring their agricultural and sideline products for sale directly to consumers. Such a situation of lively exchange between cities and countryside has been unprecedented since founding of the nation, and this has played a very good role in promoting industrial and agricultural production and in satisfying consumption needs of the people in cities and the countryside. This achievement should be fully affirmed.

However, simultaneous with the vitalizing of markets some deviations occurred too, meaning slackness in price control. In a one-sided quest for increased profits, some enterprises arbitrarily enlarged the scope of commodities on which prices had been readjusted, and either increased the degree of price readjustments or raised prices in disguised ways at will. Some reduced the number of commodities sold at parity prices as they saw fit and expanded the scope of commodities sold at negotiated prices or even purchased commodities at parity prices only to sell them at negotiated prices. In country fair trade and in urban rural trade markets, speculation, profiteering and jacking up of prices was rampant. The sum total of these unhealthy tendencies caused a general upsurge in prices that increased burdens on people in cities and the countryside, and particularly on staff members and workers and gave rise to intense dissatisfaction among the masses.

On the basis of the new situation that had developed, the state took resolute action through stabilization of prices and consolidation of negotiated prices. It strictly ruled that state regulations were to be followed and retail prices throughout the country were not to be increased for all industrial and agricultural products for which the state had set list prices. It required that retail prices for all negotiated price commodities could only be lowered but not raised in the country's large, medium and small cities, in industrial and mining areas, in county seats and in cities and towns below the county level. It simultaneously ruled that negotiated prices would not be permitted for Category I and Category II industrial manufactures used in daily life, and that the range of Category III industrial manufactures for which industrial and commercial enterprises could set prices through negotiation was to be strictly controlled. It also required implementation of a policy of basic stability in agricultural product procurement prices. Unless approved by the State Council, no region or sector could act on

its own initiative to raise prices or make disguised price increases for Category I and Category II agricultural and sideline products. Before fulfillment of state procurement quotas, these categories of products could not be exchanged at negotiated prices or sold in country fair markets. Units making purchases in major Category III agricultural and sideline product producing areas were to register with local industrial and commercial administration and control departments, and accede to centralized control and centralized distribution of sources of supply; mutual jacking up of prices would not be permitted. Once these actions had been taken, the price rise upsurge was allayed, and initial price stability was won.

These experiences demonstrated once again that for stable price policies to succeed, not only is organization of the fundamental requisite of overall balance of financial and material forces necessary, but a policy of "large plan and small freedom" must be adhered to in price control. There has to be some freedom in prices, because complete stifling of price freedom would mean no vitalizing of markets and numerous small goods and small native products that the people need would be cut off, and this would not be in accord with the masses interests and desires. However, price freedom must be limited, and it must be supervised and controlled. Were prices to be left uncontrolled, that would impact on major commodities having a bearing on the national economy and the people's livelihood, would give rise to price fluctuations, and would hurt the stability and development of the national economy. This would go against the interests and desires of the broad masses of people.

In the foregoing, we discussed mostly planning and laissez-faire in control of the means of consumption and retail prices.

B. In China, the means of production are also commodities that we customarily call goods and materials. This terminology has come down from the study of the USSR's experiences during the 1950's, and though today everybody acknowledges that the means of production are also commodities, still long usage has become a custom and the term has remained.

In China, means of production price controls differ from those of the means of consumption, but in the proper management of price controls, the two share a common relationship in planning and laissez-faire.

In another way, the means of production price control system and the means of consumption price control systems are also the same. Neither can exist and develop in isolation, but must exist and develop in consonance with national production of the means of production and the systems for controlling circulation.

Up until 1980, China divided the means of production into three categories in terms of needs for building production and the characteristics of various goods and materials, instituting different control methods for each of them. Category I goods and materials were termed "centrally distributed materials" for which the State Planning Commission organized overall balanced production and distribution. Category II goods and materials were termed "ministry

controlled goods and materials" for which relevant departments of the State Council organized overall balanced production and distribution. Category III goods and materials were called "locally controlled goods and materials," and were goods and materials other than centrally distributed materials and ministry controlled goods and materials. In the price control system, Category I and Category II goods and materials were supplied at state-set planned prices, while prices for Category III goods and materials were set by local jurisdictions and enterprises.

Generally speaking, up until 1980 the country's means of production control system controlled things too much and lacked needed flexibility. This was related to the former perception that the means of production were not commodities, as a result of which numerous artificial obstacles were erected against the flow of the means of production. For example, the following rulings were made with regard to means of production supplied by Shanghai goods and materials departments: (1) they could be supplied only within the city but not outside the city; (2) they could only be supplied within the system and not outside the system; (3) Category I and II goods and materials could not leave the province (or municipality), and Category III goods and materials leaving the municipality required a letter of introduction; (4) they could be supplied only to state-owned but not collectively owned units. This final stipulation was totally divorced from reality. Since the 1970's the burgeoning of the country's rural commune and brigade enterprises and city and town collective enterprises had brought into being a very large market, yet the state was not responsible for supplying them the means of production, nor did the state make the resources supplied a part of plan. Nevertheless, objectively, the socialist market was unified. Commune and brigade enterprises were like a guerrilla force that maintained a thousand and one economic links with state-owned enterprises, which were the regular armed forces. If you did not allow them to have links, they would go through the back door to carry on "cooperation" in illegal ways. Illegal ways could not be eradicated, demonstrating the impossibility of using subjective will to change objective laws. A portion of the means of production had opened a free market that dovetailed with the planned market, so the state had to allow state-owned enterprises to conduct relations with this free market and to give state-owned enterprises the conditions to carry on production and exchange in accordance with this free market's requirements.

After 1980, the means of production control system and the price control system made some preliminary reforms in consonance with the changed situation.

First was a strengthening of the role of goods and materials supply departments, and an expansion of the autonomy of enterprises in production and circulation. The method used was to change the former three large categories of centralized distribution, ministry control and local control into three new large categories as follows: (1) Planned distribution of goods and materials. This included major goods and materials affecting the national economy and the people's livelihood, such as fuel, major raw and processed materials and major equipment. The state continued centralized control over this category of goods and materials for which, in principle, the state prepared centralized production plans, centralized distribution and supply, and centralized prices. (2) Goods and materials supply and marketing enterprises

dealings in goods and materials. This included some fairly important goods and materials such as electromechanical products, some metals and some chemical industry construction materials. These goods and materials had the following characteristics: very much in common use, widely used, large quantities, numerous varieties and specifications, and rapid changes in demand. Since goods and materials supply enterprises centrally ordered the goods, methods of transferring and supplying them were fairly flexible. User units could seek out directly goods and materials supply and marketing enterprises with whom they could sign contracts for this category of goods and materials, and could institute floating prices within the limits allowed by state regulations. The use of floating prices was precedent setting in the circulation of the means of production in China. (3) Sales of goods and materials by producing enterprises themselves. In addition to goods and materials under planned distribution and those dealt in by goods and materials supply and marketing enterprises, in principle there are goods and materials that producing enterprises sell themselves. Enterprises are authorized to sign contracts with and organize production of this category of goods, and producing enterprises may also set prices themselves. This was not permitted in the past. All these measures played a definite role in surmounting past disjointedness between production and demand, the accumulation in inventory of goods and materials, as well as the lopsided situation of glut or famine.

Yet another reform was in the production of the means of production, in the field of circulation, and in price controls, which made an advance in the direction of "big plan and small freedom."

For example, in the organization of goods and materials exchange markets, the Shanghai Means of Production Service used daily exhibitions and sales, special booths to make sales, holding of trade fairs, external sales promotions and deliveries of goods. This spurred the former sluggish flow of the means of production, promoted exchanges of goods and materials between one region and another and one industry and another, and solved problems about some tools and raw and processed materials needed for development by commune and brigade enterprises and street enterprises. It made good omissions and deficiencies in the planned economy, and played a supplementary role under plan guidance.

A certain amount of freedom in prices has to be permitted to correspond with means of production exchange markets. The way of achieving this is through floating prices. Floating prices are semiplanned prices that are not allowed to go out of bounds. No matter whether floating upward or downward, they must be controlled. A downward float provides user units certain advantages in that it helps with the clearing of goods and materials that have accumulated in inventory. The state has already ruled that 14 categories of electromechanical products may float downward within certain limits. The following should be considered, in the main, about the extent of upward float: (1) expenses involved in processing and changing; (2) expenses in organizing sources of supply elsewhere; (3) factors causing increases in costs as a result of price rises for agricultural products and for raw and processed materials. In short, the price freedom for the means of production is limited by the inclusion in

reasonable expenditures of the goods and materials that enter the free market plus a certain profit. Floating is permitted within the limits, but control must be exercised when the limits are exceeded. Matters may not be allowed simply to take their own course.

Once free channels had been opened in the circulation of the means of production, some deviations appeared. For example, portions of certain Category I and Category II goods remaining after fulfillment of production and allocation plans were permitted to be sold at negotiated prices for a time. As soon as this loophole opened, some enterprises ran wild with negotiated prices in a quest for profits without regard for the overall situation. Once negotiated prices for production of timber in excess of plan was permitted, even before allocations within plan could be fulfilled, numerous places resorted to reckless cutting and denudation that destroyed forests. A similar situation occurred with regard to moso bamboo. Consequently, the state reiterated that all means of production allocated under plan, including portions produced in excess of plan and portions to be sold by enterprises themselves, must be sold at prices set by the state; negotiated prices were not allowed. The trials we have made during the past 2 years in reform of the means of production price control system likewise attest that only a policy of "big plan and small freedom" is a correct policy.

In the relationship between production and circulation, production is decisive. "Big plan and small freedom" in commodity circulation and price control corresponds with "big plan and small freedom" in social production. China's level of development of productivity at the present stage means that in the production area each and every means of production and means of consumption cannot be placed one by one on a plan track. In the means of consumption production area, the basic means of livelihood which amount to roughly three-fourths of gross output of commodities, including output of grain, edible oil, cotton cloth, and bicycles, are provided for in state plan. The small sundries and native products that make up approximately one-fourth of gross commodity output are produced freely outside of plan. Consequently, in the commodity circulation and price control fields, one-fourth of consumer goods also fall within the sphere of free circulation and negotiated prices freely arrived at. In the field of production of the means of production, the major means of production, which roughly account for three-fourths of gross output of goods and materials, including energy, raw and processed materials, and equipment in general use, are provided for in state plan. Production of Category III goods and materials, which account for approximately one-fourth of gross output of goods, is arrived at by enterprises themselves on the basis of market demand. Consequently, in the commodity circulation and price control fields, one-fourth of the means of production also fall within the sphere of free circulation and negotiated prices freely arrived at. Thus, since it meets the needs of production management systems, a price control system helps advance development of the national economy. Some comrades who do not comprehend the difference in nature of socialist free prices and capitalist prices overemphasize the role of price freedom in spurring production. In their view, only by relaxing price control and allowing the laws of value to play a spontaneous role can the problem of goods and materials shortages be readily solved. This is an unrealistic idea. It is the level

to which productivity has developed that determines the abundance of goods and materials. Certainly the human factor is very important in productivity, and it must be acknowledged that movements of price levers places a definite role in arousing people's enthusiasm. But producers are but one element among many in productivity, not the totality, and therefore the dynamic role of people should not be exaggerated beyond all bounds. There is a view that seems to hold that all that is necessary is an abolition of monopoly procurement and assigned procurement of grain and nonstaple foods and adoption of negotiated prices for everything, and agricultural production would rise very rapidly. Were this really the case, solution to the problem of agricultural modernization would be too simple. Numerous problems are incapable of solution through price stimulation. For example, the main reason for the present failure of supply to meet demand for aquatic products lies in destruction of resources. As a result of the influence of "leftist" ideology, there has been inadequate understanding for a long time of the importance of rational use and protection of aquatic product resources, a disregard for natural laws governing resources, blind guidance of production, espousal of wrong slogans such as "no halt in work during the dog days, no relaxation of fishing, no slackness during the slack season, and even busier during the busy season," incessant demands for "doubling of output," and catching of both large and small fish that has created serious consequences. Except for prawns and shrimp, virtually no economic fish can be found in Bohai. In the Yellow Sea, there is no fishing season for large and small yellow croakers. In the East China Sea, large hairtail resources have also been seriously damaged. An overwhelming majority of catches in in-shore areas of the South China Sea are the fry of economic fish. This is a major reason for the reduced output of the country's large and small yellow croakers and hairtails. Thus, solution to the problem of increased output of marine fish requires beginning with the formulation of scientific fishing plans that protect marine resources. Not only will reliance on prices have no effect, but may create even greater destruction of resources. We positively should not forget that under the functioning of the laws of value, exploitation of natural resources that amounts to looting and has as its goal a quest for maximum profits is a chronic malady of the capitalist system. The superiority of the socialist system lies in a planned economy being able to avoid such narrowness. To say that laissez-faire is absolutely good and to regard planning as extraordinarily bad, or to reverse the positions of planning and laissez-faire will inevitably result in chaos in the circulation field and affect economic stability; thus it should not be done.

3. Correct Handling of the Relationship Between Centralized Authority and Decentralized Authority in Price Management

In the problem of the relationship between centralized authority and decentralized authority in price management, the problem to be explored is the delineation of the limits of control authority between the central government and local governments as well as between central and local authorities, and delineation of the limits of price control authority among industries and businesses. If this problem is handled well, production and circulation of commodities will be benefited; if it is not handled well, production and circulation of commodities will be inhibited, or chaos may result.

China's price control system, like the entire economic system, practices the principle of "centralized leadership and level by level control." However, the degree of centralization and decentralization has changed very greatly at different times. These changes have generally been subject to the following limitations:

A. Limitations imposed by changes in the entire economic control system. For example, during the period of recovery and during the period of the First 5-year Plan, in order to assure revival of the national economy, price stability, the realization of socialist transformation and success in key construction efforts, the entire economic control system tended to be centralized, and price control tended to be centralized too.

During the latter part of the First 5-year Plan, because of too great a centralization of the economic management system that did not correspond to the situation following the three great socialist transformations, a reform was instituted that expanded the limits of local control authority for the first time. Corresponding readjustments were also made in the price control realm at the same time, and this became a basic standard for the division of labor in subsequent price control. In the consumer goods fields and for agricultural and sideline products, procurement prices and sale prices of all goods and materials covered by plan procurement (monopoly procurement), and centralized procurement were set by various commercial departments. In non-major production areas, local governments were entrusted with control of price levels on the basis of regulations from commercial departments. Prices for centrally procured scrap copper, scrap tin and scrap steel and iron were also handled in the same way. Prices of small native product Category III goods and materials, and for goods and materials that local jurisdictions had designed for local centralized procurement were controlled by local governments. However, reference had to be made to price levels controlled by various central government commercial departments, the extent of rise and fall in unified prices being annually set by the central government. For industrial manufactures, the procurement prices of goods and materials centrally allocated by the State Economic Commission or centrally distributed by ministries of industry were handled in accordance with state prescribed allocation prices. Additionally, procurement prices for all other industrial goods were controlled by provinces (or municipalities) and autonomous regions in accordance with principles set by central government commercial departments. As regards sale prices of industrial manufactures, commercial departments in the central government set prices in major markets and for major goods. Prices in secondary markets and for secondary goods were set by provinces (or municipalities) and autonomous regions in accordance with price-setting principles prescribed by commercial departments in the central government. Attention was also given to discussion with neighboring areas to readjust prices. After founding of the Price Commission, commercial department accepted the leadership of price commissions at the same level on price control matters.

In the means of production field, there was basically a division of labor on the basis of goods and materials control, those controlling distribution also controlling prices. Prices of Category I and Category II goods were controlled by the State Planning Commission and various departments in charge

in the central government. Category III goods prices were controlled by local authorities. However, accompanying reforms of the economic control system was a sometime expansion and sometime contraction in the scope of Category I and Category II goods. For example, during the period of the First 5-year Plan, the system tended to be centralized and the number of goods in Category I and Category II was large. In 1957, 231 different kinds of goods were centrally allocated, and 301 kinds were under ministry control. Between the time of the "Great Leap Forward" until 1962, economic management authority was delegated downward, and centrally allocated or ministry-controlled goods decreased to 132 kinds. During the period of readjustment, economic control authority was delegated upward; the number of centrally allocated goods increased to 357 kinds, and the number of ministry-controlled goods increased to 222 kinds. During the period of the "Great Cultural Revolution," economic control authority was delegated downward once again, and the number of centrally allocated and ministry-controlled goods declined to 168 kinds.

B. Limitations imposed by economic circumstances at individual historical periods. This is to say that during periods of major social change or during period of financial and economic hardship or price fluctuations, centralization of price control authority was intensified, and when economic conditions took a turn for the better, decentralization of authority was emphasized.

During the recovery period, in order to effect a fundamental change for the better in the financial and economic situation and win victory over inflation and price increases, centralization of price control was intensified. During the period of socialist transformation when the state instituted processing, goods ordering, centralized procurement and monopoly marketing policies for capitalist industries, control of commodity price work was strict and centralized.

During the 3 years of readjustment following the "Great Leap Forward," in order to stabilize prices so as to help readjustment of the national economy, centralized control of prices was intensified. In order to guard against individual regions and entrepreneurial units from being out of step with each other in price readjustments, and to prevent ill-advised price increases, clear rulings were made that the limits of price control authority could only be centralized and not decentralized, and that price readjustments had to be approved by central authorities.

Following the large-scale rise in agricultural product procurement prices of 1979, because of the public funds deficits, and because price control institutions and control work had just begun to revive and was still very unhealthy, a violation of price discipline occurred throughout the country with an upsurge of tumultuous price rises and disguised price rises taking place. No department or unit had the authority to take action by itself to readjust commodity prices set by plan; they had to report to price departments for approval.

C. Limitations set by the extent of development of individual trades and industries and complexity of products. Newly developed industries are small

in scale at the outset and they do a large volume of work so price control can be somewhat centralized. But once production has developed and they become strong, produce a welter of goods, and their situation is complex, price controls have to be managed level by level.

Take the electronics industry, for example. During the early 1960's, it was beginning to get going and was relatively small in scale. The amount of price setting and price adjustment to be done was not great. As a result, all prices were controlled by the central government, and neither local governments nor production enterprises had any authority to set or readjust prices. By the mid-1960's, the electronics industry had developed rapidly; its gross output value had increased more than 10 times over; numerous new products had appeared; and the volume of price control work had become increasingly great. At the same time, development was uneven between one region and another and one enterprise and another, and contradictions were becoming ever more conspicuous. In order to meet the developing situation and stimulate the enthusiasm of all quarters, a system of "centralized leadership and level-by-level control" was instituted in 1965 whereby the authority to set prices for some nonmajor products was delegated to enterprises, enterprises being permitted to set prices for primary products, samples of new products and product remnants. Beginning in 1973, approval was given to set different prices for the same product at certain times and within certain limitations in different areas and among different enterprises. At the same time, a system of mutual dovetailing of prices was set up between localities and major regions. At this time, prices of more than 70 percent of all electronic products were set centrally by the state or ministries in charge. The output value of these products was more than 80 percent of gross output value of all electronic products. One might say that during this period the system was one of level-by-level control, centralization of authority in the central government predominating. Subsequently it was felt that this control system overcontrolled the setting and readjustment of prices, and that there were too many echelons, that it took too much time and that efficiency was too low, all of which were not suited to needs for rapid development of the electronics industry, so the system was changed in 1980 to the institution of floating prices (downward floating) for electronic products in the formation of a new system in which authority for setting prices is currently held mostly by the central government, while authority for readjusting prices is held primarily by production enterprises.

As has been said in the foregoing, in handling the relationship between centralized authority and decentralized authority for price controls, one cannot take action that departs from the various limitations discussed above. At the present time, China is in a period of carrying out readjusting, restructuring, consolidating, and improving in which it has to guarantee basic balance between receipts and expenditures of public funds and loans, plus basic stability of prices, and in which a high degree of centralization of price control authority is necessary in order to struggle to overcome temporary financial and economic difficulties. However, once a fundamental change for the better has taken place in the situation and latent dangers have been eliminated, there should be a suitable decentralization of authority. Agricultural and sideline products currently handled by commercial departments include live

hogs, beef cattle, slaughter goats and sheep, fresh eggs, poultry, vegetables and sugar refined by native methods. Except for vegetables and poultry, the prices of which are under local control, procurement prices for these commodities are under control of the Ministry of Commerce. Local jurisdictions report too much control by the central government, and proper decentralization should take place. The Ministry of Commerce can emphasize a firm grip on procurement prices for cattle, sheep and goats in major pastoral areas, and take in hand pork sale prices in provincial capitals as well as cattle, mutton and goat meat sale prices in provincial capitals in the three major pastoral areas. The Ministry of Commerce proposes, on the basis of national policies, general control principles on procurement and sale prices for fresh eggs, poultry, vegetables and sugar refined by native methods. Specific prices are under control of each province, municipality, and autonomous region. In short, China's economic management system takes the controlled economy as the key link and market regulation as supplementary. In consonance with this, prices of all major products bearing on the national economy and the people's livelihood are controlled by the central government under all circumstances. All others are controlled level by level in accordance with centralized policies as circumstances change.

At the present time, prices of 92 items of industrial manufactures in 10 categories are controlled by the Ministry of Commerce. In the future, there will be four different overall ways of purchasing and selling commodities as follows: (1) monopoly procurement and monopoly marketing; (2) exclusive marketing; (3) standing order procurement and selected procurement by businesses; (4) marketing by industries themselves. Authority to examine and approve prices of goods in the first two forms will be generally vested in pricing units at the provincial, municipal, and autonomous region and above. In pricing the second two forms of goods, only general policy principles and methods of pricing will be set. For some products, the extent of upward and downward floating may be set, units in charge of enterprises exerting control dynamically.

In addition to the centralization and decentralization of authority between central and local government units at all levels, the following problems also have to be solved:

A. The problem of division of labor at all levels within the central government. By this is meant the division of labor among the NPC Standing Committee, the State Council and ministries. Generally speaking, overall goods pricing policies are to be decided by the NPC Standing Committee. Overall price levels and the setting and readjustment of prices of major goods, as well as price control systems are to be decided by the State Council. The State Price Bureau should regularly supervise implementation of price policies by all central government ministries and local agencies, and it should formulate and approve prices for some goods. Vocational units in charge are responsible for formulating prices of major goods under jurisdiction of their units, as well as for supervising implementation of price policies in their system.

B. Division of labor between vocational units in charge and pricing units in general, i.e., the problem of the division of labor between central and

local authorities. Vocational units are better versed in technical functions and system characteristics of products. Changes in prices of a product frequently ramify into price changes for numerous related products about which only vocational units in charge are rather well informed. Consequently, serious attention must be given to the role of vocational units in charge in setting and regulating prices. However, vocational units are prone to emphasize the interests of bureaus and ministries and are prone to occupational disease. These are their shortcomings. Price units have the advantage of overall control of the situation and are more able to watch overall balance and look after the interests of producers, consumers and the country concurrently. However, they do not understand product characteristics and their interrelationships. Lack of acuteness in the reporting of problems is their shortcoming. For these reasons, there has to be both a division of labor and cooperation between central and local authorities with full consultation. Units in charge should put forward more ideas and make more suggestions, and price units should watch overall balance and be the final approving authority for setting and regulating prices.

C. Division of labor between industry and commerce. Industrial units are in charge of factory prices, and commercial units are in charge of sale prices. Since each occupies a different position, in actual work industrial units pay more attention to production aspects while commercial units pay more attention to changes in market supply and demand. Frequently the two hold different views that affect the formulation and readjustment of prices. As methods of dealing in goods change, the division of labor between industry and commerce in price control should be correspondingly readjusted. Take goods that businesses selectively procure, the factory price of which may be negotiated through consultation between industry and commerce. When divergences in views occur, price units at each level should decide. Prices of goods that are not selected for procurement by commercial units and that are completely sold by industries themselves may be set by units in charge in the industry. However, insofar as possible, retail prices should be uniform in the same market. The goal of correct handling of planned and free price relationships and the relationship between centralized authority and decentralized authority in a price control system is good price control so that control does not stifle and vitality does not produce chaos. In order to improve the price control system and strengthen price control work, price laws must also be formulated. Price laws should systematize the control system and superintend the formulation and implementation of product prices and fee-collection standards, prices thereby playing a role in the national economy of advancing production and circulation and guaranteeing stability of the people's standard of living. Serious attention is given price legislation in foreign countries. In Romania, for example, laws on prices and standards for receipts and expenditures were promulgated in 1977 that provided that disciplinary action would be taken for violations of laws in accordance with circumstances, either material fines or fixing of criminal responsibility being meted out. In January 1980, Yugoslavia promulgated "Foundations of the Price System and Law For the Supervision of Social Prices," whose sixth section stipulated fines for violation of the law. These experiences merit our emulation.

4. Foreign Experiences With Price Management Systems

Formerly, Eastern European countries used the USSR as their standard for economic control systems. This gradually changed later on, and numerous new forms appeared. This was also the case with the price control system. Thus, a review of their methods and problems is beneficial for us.

There are five kinds of sale prices for industrial manufactures in Yugoslavia as follows: (1) Free prices: These apply to about 3 percent of industrial manufactures, the kinds of products they cover including foods, canned goods, fruit, meat products, toys, bicycles, candies, alcoholic beverages, and cosmetics. (2) Limited prices: These are prices freely arrived at on the basis of commonly agreed upon limited prices within the same industry and apply to about 22 percent of industrial manufactures including textiles, leather, shoes, furniture, and rubber manufactures. (3) Negotiated prices: This requires signing of an autonomous agreement for joint setting of prices, and it must be approved by national organizations in charge. It applies to about 17 percent of all goods including white sugar, edible oil, motor vehicles, farm machines, the chemical industry and metal processing. (4) Floating prices: Producer units, consumer units and national agencies in charge sign a three-way social agreement setting floating price standards, and enterprises may automatically readjust prices within certain limits on the basis of changes in the international market. This applies to 20 percent of industrial goods, mostly iron and steel and nonferrous metals. (5) Controlled prices: Prices are controlled by state agencies in charge. This applies to about 10 percent of all goods including tobacco and petroleum products. There are two forms of agricultural product prices. For 11 major agricultural products, the government sets uniform national minimum guaranteed prices. These 11 major agricultural products are wheat, corn, husked rice, sunflower seed, rapeseed, sugarbeet, tobacco, cotton, fur, milk, and meat (pork, beef, mutton and goat, and domestic livestock). This is the first category. The second category includes secondary agricultural products, prices of which are freely set by producers and include fish, vegetables, and fruits.

The price control system that exists in Yugoslavia today has gone through a tortuous process, namely, from centralization to decentralization, and then from decentralization back to new centralization in three stages. From 1949-1951, a centralized plan system was instituted with direct plans of a command nature in which production, distribution and exchange was very small. Yugoslavia felt such a system had numerous shortcomings. Production could not be carried out in accordance with market demand, and it did not favor arousal of the enthusiasm of enterprises and workers. Between 1952 and 1971, it instituted a decentralized or flexible planning system in which the planning function was greatly weakened. No longer did the state hand down specific plans; instead it set only basic percentages, which it provided enterprises for references. Enterprises then formulated their own plans on the basis of the market situation, their own circumstances, and with consideration of national requirements.

Market prices of industrial and agricultural products came about freely on the basis of supply and demand. The method of national centrally set prices was

abolished, and during the mid-1960's planning was virtually completely abolished. The right of enterprises to set prices was emphasized, enterprises thereby having all the authority they needed to become "independent commodity producers," the Yugoslav economy becoming a genuine market economy. In this restructuring, Yugoslavia itself acknowledged that it "could not be implemented smoothly." From 1972 until the present time, it has practiced an autonomous social planning system founded on coordinated labor. Market coordination and plan guidance are linked. In the price control system, enterprises are free to set prices, but social supervision is exercised over the prices of major goods. Today prices of about 50 percent of goods are supervised by society (limited prices, floating prices, controlled prices). Price increases have to be approved by the federation or republic price bureau. Once agreement is reached on negotiated prices, a memorandum must be sent to the government. If they are exceeded by a certain amount, intervention will take place. Yugoslav comrades believe that direct supervision of prices is an important way in which to prevent price rises. During a visit to China in October 1979, Yugoslav economist Ivan (?Marximovich [phonetic: makesimoweiqi]) said the following in a briefing on the Yugoslavian economic control system: "Practice has shown that there has to be planning."

Even though Yugoslavia has numerous forms of social supervision of prices, nevertheless, inasmuch as enterprises themselves have authority to set prices for half of all goods, they frequently miss no opportunity to raise prices or even monopolize prices, with the result that "an extraordinarily high rate of inflation has appeared." Their experiences in reform merit study.

Hungary has applied the following four kinds of price regulation to three categories of its price system. The first category is fixed official prices. This includes prices for basic raw materials, basic consumer goods and in basic service trades, which are set by the national price bureau. Goods to which fixed official prices apply account for 10 percent of the means of production and 20 percent of consumer goods. The second category is official price controlled negotiated prices. This applies to construction industries, some raw materials, and most consumer goods, prices of which are of two kinds, namely, maximum prices and floating prices. Official price controlled prices apply to 29 percent of the means of production and 50 percent of consumer goods, the maximum price applying to 30 percent and floating prices applying to 20 percent. The third category is free prices, including glass, porcelain and ceramics, and agricultural products, such as vegetables and fruits for which prices are set by enterprises. However, unless ample reason is given for setting the price, national materials and price bureaus may overturn them. Free prices apply to 60 percent of the means of production and 30 percent of consumer goods. This new price system was instituted in Hungary following the 1968 economic system reform. Up until 1973, the economy was fairly stable. After 1973, however, as a result of a sudden leap in prices on the international market during the petroleum crisis in the West, prices of imports, on which the Hungarian national economy is very dependent, rose. In order to assure internal price stability, the state had no choice but to institute price subsidies for imported raw materials distributed to industrial plants. Thus, its financial burdens became increasingly heavy, and it was finally unable to carry them. It had no choice but to carry out a comprehensive reorganization of domestic prices in terms of international market prices,

as a result of which retail prices rose very greatly. Hungary's price control system is much more centralized than Yugoslavia's and is much more planned. At the same time, it is also fairly flexible. This flexibility is particularly necessary for countries whose national economies are founded on the importation of raw materials and the export of finished products, so results are apparent at the outset. However, because of its fairly heavy dependence on international markets, post-1973 Hungarian price controls were unable to withstand the buffeting of international market price rises and sank into an extremely passive situation. This demonstrates the brittleness of national economies that are built on imports and exports. This fundamental problem is one that sole reliance on a price control system cannot solve.

Ours is a country with a population of 1 billion. Its economy is primarily one of self-reliance, with enterprises being required to base their production, supply and marketing on China's own resources, themselves finding the proper balance. Imports and exports can only play a supplementary regulatory role. Thus, there must be a large amount of overall balance and planning in production, circulation and distribution links. The economy differs greatly from that of Yugoslavia and Hungary on this point. However, emphasis on planning is not the same as planning being all-encompassing. This is because objective conditions will not permit our planning to be all-encompassing, and forcing it will do the economy to death. This is the reason that we have to have small freedom in addition to big plans. Of course, with large plans and small freedoms, there is a certain amount of expansion and contraction in centralized leadership and level-by-level management. However, the extent of this expansion and contraction is limited by the bigness of big plans and the smallness of small freedoms. This is to say that there are quantitative limits, and when they are exceeded, small freedoms become big freedoms. But even with small freedoms, there can be no unbridled freedom because of the supervision and control of all levels of government in the country. Without this, the socialist planned economy would change. This has been attested to by practical experience in China during the past 32 years and by international experience as well. How to go about turning principles into reality requires repeated exploration in practice, and this is an important future task for us.

Appendix

USSR Industrial and Agricultural Product Prices and the "Price Scissors" Problem

During the 36 years from victory in the October Revolution until Stalin's death, and during the 25 years of Brezhnev's rule, the issue of industrial and agricultural product prices has been a major economic issue in the USSR that has attracted people's attention. Stalin's theories on the issue of a "price scissors" between industrial and agricultural products was correct, but mistakes were made in practice during subsequent years. The agricultural price policies of Khrushchev and Brezhnev were both a success and a failure. They both pinned their hopes on the application of price levers to solve problems in the backward state of agriculture. In an overall sense, this strategy did not achieve the anticipated results. Below we have collected and systematized data about the industrial and agricultural product prices and price policies in the USSR during various historical periods, which are presented for reference in studying China's industrial and agricultural product price policies.

1. The Price Scissors Between Industrial and Agricultural Products During the Stalin Era

Several price fluctuations took place in the process of instituting the New Economic Policy as well as in socialist industrialization and agricultural collectivization in the USSR. Two of them increased the price scissors between industrial and agricultural products, but the scissors was decreased after action was taken. The price scissors increased again before and after the war in defense of the country.

The First Appearance of a Price Scissors

During the autumn of 1922, industrial and agricultural product prices rose and fell in the USSR, and a price scissors developed in the exchange of goods between cities and countryside. Reasons creating these phenomena were as follows:

A. Industrial revival was slower than agricultural revival. In 1923, the level of industrial production was only 39 percent what it had been in 1913, and the labor productivity rate was twice as low as it had been in 1913. As a result of the bumper harvest in agriculture of 1922, the crop totaled 75 percent of the 1913 amount, and the labor productivity rate was 93 percent of what it had been in 1913. Because of the low industrial labor productivity rate plus poor administration and management, manufacturing costs for industrial products were high. Industrial enterprises and state-owned trading agencies made the mistake of seeking profits blindly, and this led to a raising of factory prices and wholesale prices of industrial goods. In agriculture, on the other hand, prices skidded as a result of the bumper harvest of the previous year, and thus the price scissors increased.

B. Devaluation of paper currency caused losses to kulaks in the exchange of goods. Two kinds of currency circulated in markets at that time. One was the constantly devalued Soviet paper currency, and the other was the gold ruble whose value remained stable. Gold rubles were in large denominations and were mostly used by state-owned enterprises. Kulak sales of goods were in small amounts, for which paper currency was mostly used. As a result, the kulaks were constantly subjected to losses resulting from devaluation of the paper currency, and this was another reason for increase of the price scissors.

C. Private traders controlled markets. At that time, 75.3 percent of the volume of retail trade was done by private traders. Use of industrial manufactures that were not produced in sufficient amounts raised retail prices. Private traders caused the 1 October 1923 rise in the industrial manufactures retail price index that exceeded the rise in the wholesale price index by 42.1 percent. Overly high retail prices for industrial manufactures caused the kulaks to suffer in exchanges.

The steady increase of the price scissors between industrial and agricultural products was extraordinarily disadvantageous for development of the national economy. It dealt very heavy blows to the peasant economy. For example, at that time the kulaks frequently had to use the harvest from 7 or 8 desyatina (1 desyatina equals about 1.9 hectares) to buy a pair of boots, and they had to pay four times as many agricultural products as before World War I for an equal amount of textiles. The kulaks could not afford industrial manufactures and began to develop handicraft industries to satisfy their needs. These handicraft industry products rapidly flooded the market and formed a sealed production and marketing network between the peasant economy and private capital from which state-owned enterprises were excluded. As a result, large amounts of urban industrial manufactures accumulated in inventory. Take Moscow, for example, where volume of turnover in socialist businesses decreased more than threefold between July and October 1923. This situation seriously hurt the alliance between industry and agriculture.

In January 1924, the 13th Congress of the Russian Communist Party (Bolshevik) emphasized problems in the alliance between industry and agriculture in its analysis of the industrial manufactures marketing crisis. This was followed by the launching of a movement opposing "price scissors." This marked the earliest appearance of the term "price scissors."

The actions that the Soviet party and government took at that time were as follows:

A. Resolute institution of the rationalization of production in enterprises, practice of conservation, reduction of expenditures for miscellaneous fees, and a lowering of industrial costs. As a result of difficulties with supply of raw materials and fuel, numerous industrial plants could only work at partial capacity. In order to lower costs, it was decided to concentrate industrial production in enterprises where the scale of production was greatest, where technical equipment was the best, where the geographic location was closest to raw material production sites and to finished product marketing centers, and where productivity rates were highest. It was on this basis that the state set the amount by which prices of industrial manufactures,

and particularly of industrial articles used in daily life, would be lowered.

B. Stabilization of devaluation. A balance between receipts and expenditures, and elimination of deficits was sought in government finance, which created conditions for the issuance of unified gold ruble national treasury certificates and a halt to the circulation of Soviet paper currency.

C. In the field of commodity circulation, the struggle against private capitalists and the elbowing aside of private traders was intensified so that the state could get control of markets.

D. As a result of a bumper grain harvest, grain exports were organized, and procurement prices paid for agricultural products were increased at the same time.

These actions had very good results, and in the winter of 1923 increase in the price scissors came to a halt. By the spring of 1924, it had decreased, and by early 1925, the problems had been substantially solved.

The Second Appearance of a Price Scissors

During the period of socialist industrialization in the USSR, another price scissors between industrial and agricultural products occurred. Industrial production costs increased during 1925 and 1926. Numerous marketing departments in industrial plants did not try to lower costs but rather raised factory prices out of fear of a decline in profits. This was related to the preaching by Trotskiy and Zinov'yev about gaining excess profits and opposition to lowering of prices of industrial products. In addition, there were too many intermediate links in the circulation of goods at that time. Some major industrial manufactures frequently had to go through three or four units, occasioning too many fees for goods circulation and causing a rise in retail prices. By June 1936, the rise in the retail price index for industrial manufactures was approximately two times higher than that for agricultural product procurement.

In February 1927, decisions of the CPSU (Bolshevik) Plenum pointed out the following: The currently most important task in proletarian leadership of the peasants is lowering of the prices of industrial manufactures. Though prices of agricultural products remain stable, retail prices for industrial manufactures have not dropped to the extent that they should have during the most recent half year, so an extremely wide gap exists in the "amount of the price scissors."

The actions that the CPSU (Bolshevik) Central Committee took at that time were as follows: (1) improvement of enterprise management and lowering of factory prices; (2) reduction of the number of circulation links and lowering of business profits. This set the stage for a lowering of industrial manufacture retail prices. During the first half of 1927, factory prices of industrial manufactures dropped 4 percent, and added business fees dropped approximately 6 percent in realization of the CPSU (Bolshevik) Central

Committee's demand for a 10 percent lowering of the retail prices of industrial manufactures.

As a result of the decline in industrial manufactures retail prices, the price scissors was mitigated.

In December 1926, the procurement price paid for 1 pood of highland barley could buy only 1.74 meters of printed calico, but by May 1927, it could buy 1.96 meters. During the same period, the amount of salt that the procurement price of 1 pood of wheat could buy rose from 32.9 to 50.9 Russian jin. This meant that the same amount of wheat could be exchanged for 12.6 percent and 55 percent more industrial manufactures, respectively.

Thereafter until 1929, prices of Soviet industrial manufactures were fairly stable with a slight decline. Using a price index of 100 for 1926, the situation afterward was 94.0 in 1927, 95.0 in 1928, and 93.2 in 1929. Though the "price scissors" decreased during this period, nevertheless, a "price scissors" remained.

The Third Appearance of a Price Scissors

From the beginning of the 1930's until the eve of the war in defense of the country, prices of Soviet industrial manufactures again went through a process of rise, fall, and rise again. Agricultural prices went from meteoric rise to fall and tended to become stable. The overall trend of prices for industrial and agricultural products was toward rise. Prices of agricultural products that peasants sold in 1940 were 2.32-fold greater than in 1927, and prices of industrial manufactures that peasants bought rose 5.5-fold. The price scissors had increased.

The historical background of this process of development was as follows: As a result of rich peasants having slaughtered large numbers of cattle at the beginning of the collectivization of agriculture, and particularly in 1930, prices of livestock in markets skyrocketed. As a result of the grain shortage in the first half of 1932, cereal grain prices gradually rose. This caused an increase in staff member and worker living expenses, and state-owned enterprises were forced to raise the wages of staff members and workers, causing a concomitant increase in costs. But, in order to assure accumulations, the state again raised prices of industrial manufactures. Thus, prices of agricultural and industrial products rose in turn in a chain reaction that was obviously disadvantageous for consolidation of the worker-peasant alliance and stabilization of worker and peasant living standards. Therefore, the 17th CPSU (Bolshevik) Congress (January 1934) decided to lower the prices of industrial manufactures. Between 1935 and 1937 the industrial manufactures price index declined. But this was the time when World War II was about to break out, and national defense needs meant that price-reduction policies could not continue to be carried out. On the contrary, retail prices for food and industrial manufactures rose again. In the procurement of agricultural products, a system of compulsory sales to the state founded on the 1933 collectivization of agriculture was instituted. The state set minimum fixed prices for agricultural products. In addition to compulsory sales to

the state, cereal grains in excess of plan procurement were purchased at a price that was 20 to 25 percent higher than the compulsory sale price. In 1935 compulsory sale prices were raised 18 percent, and prices for raw cotton, flax, and hemp were more than doubled. In 1936, a system of bonuses in addition to cereal grain procurement prices was instituted, procurement prices thereby becoming approximately double negotiated sale prices. However, the extent of overall agricultural product price increases was lower than the extent of industrial manufactures price increases, so the price scissors increased again.

The Dispute Between Stalin and Opposition Factions About the "Price Scissors" Question

A serious dispute took place with the CPSU during the 1920's about the "price scissors" question. This question was, in fact a question of how to handle the alliance between workers and peasants in the building of socialism. The CPSU (Bolshevik) Central Committee headed by Stalin launched an intense polemic around this question with Trotskiy, Zinov'yev, and Bukharin.

Trotskiy and Zinov'yev had come from "leftist" backgrounds, and they did not believe in the possibility of recruiting the peasantry for participation in the building of socialism. They advocated sacrifice of the peasants' interests in carrying out industrialization. One of the ringleaders of the Trotskiy-Zinov'yev alliance, Preobrazhensky, publicly announced that: "The more economically backward any country in transition in the organization of socialist production, and the more serious its petit-bourgeois character, i.e., its present character . . . the more the country will be forced to rely on the exploitation of presocialist economic forms for its socialist accumulations."¹ Trotskiy was frightened by "bumper harvests." He said, "A bumper harvest when there is a shortage of industrial manufactures means that large amounts of grain will be distilled into illegal liquor, and queues of urban residents buying grain will lengthen. Politically speaking, a bumper harvest will mean peasant opposition to monopolization by foreign trade, i.e., opposition to socialist industry."² Using this concept as its point of departure, the Trotskiy-Zinov'yev alliance proposed raising the factory prices of industrial manufacture, and to put a tax squeeze on the peasants to the maximum limits. At the other pole, Bukharin and Rykov spoke as representatives of the spontaneous power of the petit-bourgeoisie. They proposed market "normalization" and "readjustment of grain procurement prices" by zones, meaning a rise in grain prices. They also slandered the CPSU (Bolshevik) for carrying out a policy of "military blockade and exploitation" against the peasantry.

Stalin condemned these falsehoods and expounded the following basic concepts in the polemic.

A. Opposition to a rise in prices of industrial manufactures and a lowering of agricultural product prices in increasing the "price scissors."

1 "New Economics," Vol 1, Second Book, Moscow 1926, Second Edition, p 138.

2 "Collected Works of Stalin," Vol 8, p 257.

Stalin scathingly denounced the Trotskiy-Zinov'yev alliance saying that they "rebuked" the party with a loud din and clatter 'from the left,' while at the same time calling for a rise in the factory prices of industrial manufactures, supposing that industrialization could be hastened in this way. Actually, to do this would certainly disrupt domestic markets, destroy the link between industry and agriculture, reduce the chervonets exchange rate and lower real wages, consequently destroying any industrialization. They are for industrialization in name, but are accomplices of the enemies of industrialization in fact."³

B. Recognition that existence of a "price scissors" in the USSR at that time was not exploitation of the peasants.

Stalin said that "In addition to paying general taxes, i.e., direct and indirect taxes, the peasants have to pay the state an excess tax, i.e., they have to pay more money when they buy industrial manufactures, but they receive less money when they sell agricultural products." Does this not mean that in levying such an added tax we are exploiting the peasants? No, this is not what it means. It is the nature of Soviet political power not to permit any state exploitation of the peasants." Under the Soviet system, socialist countries do not exploit the peasants because steady improvement in the material well-being of the working peasants is a law of development of Soviet society, and this rules out any possibility of exploitation of the peasants."⁴

C. Advocacy of abolition of price scissors, but no advocacy of immediate abolition of price scissors.

Stalin said, "We all believe unanimously that if we truly want to maintain rapid development of industry, adoption of these methods as temporary measures is necessary. . . . This is not only requested by industry itself, but also by agriculture first of all. It is required by the peasants. Today the peasants most need tractors, farm machines and fertilizer."⁵ Our policy should be a gradual narrowing of this "price scissors" so that they become closer year by year . . . thereby completely canceling these taxes on the peasants after several years."⁶ "Yesterday some comrades distorted the program of abolishing the 'price scissors' and, in fact, demanded readjustment of agricultural product prices. Some other comrades and I expressed opposition, pointing out that this demand currently contravenes the interests of national industrialization, and thus it also runs counter to our country's interests."⁷

D. Advocacy of gradual abolition of price scissors through a lowering of costs and prices of industrial manufactures.

3 Ibid, Vol 8, p 202.

4 Ibid, Vol 12, pp 45-46.

5 Ibid, p 45.

6 Ibid, Vol 11, p 140.

7 Ibid, p 165.

Stalin said, "We are striving to carry out a policy of lowering product costs and lowering prices of industrial goods so as to maintain agricultural product price stability." "Bukharin has proposed...raising grain prices...giving in to the spontaneous power of the petit-bourgeoisie that comes from the left to destroy the new economic policy." "But the problem is not limited to this. First of all, once grain procurement prices have been increased, we will subsequently have to raise prices of raw materials that agriculture produces in order to maintain certain price parities among various agricultural products. Second, once grain procurement prices have been raised, we will not be able to maintain cheap retail prices for grain in the cities; consequently, grain retail prices will have to be raised. Because we cannot and should not hurt the interests of workers, we must raise wages quickly. However, this cannot be done without raising the prices of industrial manufactures, because not to raise prices of industrial manufactures will run counter to the interests of industrialization, wages thereby flowing from cities into rural villages. As a result, we must bring into line prices of industrial manufactures and agricultural products not on the basis of lowering or at least stabilizing prices, but on the basis of raising prices of grain and of industrial manufactures. In other words, we must adopt a policy that raises prices of both industrial manufactures and agricultural products."⁸

Successes and Problems in Stalin's Price Policies

During the Stalin era, there were several price scissors. The CPSU (Bolshevik) made very great efforts to decrease the price scissors. The price policies that Stalin pursued at that time accumulated capital for industrialization and simultaneously accumulated capital for industrialization while laying a material foundation for agricultural mechanization. Most of the tractors used in the USSR during the 1920's were not produced in the country, but were imported from the United States. In October 1928, there were 31,858 tractors in the fields only 3,718 of which were produced in the USSR. During the First 5-year Plan (1929-1933), imported American technology founded a new tractor industry. Stalingrad, Kharkov and Chelyabinsk Oblast all set up tractor plants. In 1932, no more tractors were imported. By 1938, socialist industry had supplied rural villages with 394,000 tractors and 127,200 combines, and by 1940 these numbers increased to 435,000 and 153,000, respectively, for a great strengthening of technical equipment in agriculture. The area sown to agricultural crops expanded from the prewar 105 million hectares (which converts to 1.57 billion mu) of 1913 to 135 million hectares (which converts to 2.11 billion mu) in 1937. Cereal grain output increased from 4.8 billion pood (which converts to 78.62 million tons) in 1913 to 6.8 billion pood (which converts to 110.38 million tons) in 1937. This was an increase of an average 584 kg per capita in 1913 to 626 kg per capita in 1937. This was a very great achievement.

However, Stalin decreased the price scissors neither before the war in defense of the country nor particularly after the war. If one says that there were objective reasons for this under the threat of war during the

⁸ Ibid, Vol 12, pp 40-42.

late 1930's, it is very difficult to say that the continued increase in the price scissors after the war was correct. After the war, and particularly during the late 1940's, prices of industrial manufactures rose. State purchase quotas of agricultural products were high and prices were low (in 1953, prices paid for procurement in excess of plan were 12 times procurement prices paid for obligatory sales). In 1951, the obligatory sale price for wheat was only 19 percent higher than in 1929, yet the retail price of wheat in state-owned businesses was more than 10 times the 1929 price. During the Stalin era, a policy of low prices and high state procurement was adopted toward the peasants, plus a requirement that rural villages pay material compensation to state-owned tractor stations for doing plowing for the village. This compensation figure was also very high; it adversely affected collective peasant earnings and village accumulations, and dampened peasant enthusiasm for production. This was an important reason for the slow development of agricultural production in the USSR during the early 1950's.

2. Agricultural Product Price Policies in the USSR After Khrushchev Seized Power

During the peacetime period following victory in the war to protect the country, the USSR's population grew rapidly, and there was a marked increase in the urban population in particular. The CPSU and government were faced with the urgent task of hastening development of agriculture and assuring grain and livestock supplies.

In order to consolidate his own position after having seized power, Khrushchev went even further with the errors Stalin had made with agricultural product price policies. In 1958, he resorted to demagoguery with the slogan of catching up with the United States in meat by the early 1960's and dairy products by the early 1960's. Khrushchev's secret formula for the development of agriculture was mostly price stimulation and development of the virgin lands. In order to stimulate peasant enthusiasm for production, Khrushchev made two large-scale readjustments of agricultural and livestock products. The first was in September 1953; the second was in June 1962.

The first hike in agricultural product procurement prices began in September 1953 with livestock products, potatoes and vegetables, and was subsequently expanded to other agricultural products. The first products for which procurement prices were raised were livestock and poultry products, which were raised more than five times what they had been. Prices for cream and butter were doubled; prices of potatoes rose 1.5-fold, and the price of other vegetables rose an average 25 to 40 percent. The price of meat purchased in excess of quota rose by an average 30 percent, and dairy product prices rose an average 50 percent.

Simultaneous with the rise in prices was a decline in the compulsory amounts of agricultural products to be sold to the state. Expansion of the proportion of procurement was also a method of raising agricultural and livestock product prices. For the following 4 years, procurement prices for agricultural products continued to rise. After 1958, the various kinds of procurement prices were abolished and a change made to the setting of uniform procurement

prices by zones throughout the country. The average procurement price of all agricultural products rose further.

Overall, the average procurement price for all agricultural products between 1953 and 1957 had increased 200 percent over 1952. The average price for all farm products had increased 100 percent. Prices of cereal grains, which had been particularly low in the first place, rose 600 percent. Prices of cash crops increased only 50 percent in 1959 as compared with 1952. Virtually no change occurred in cotton prices because they had formerly been raised very high. Finally, prices of livestock products rose an average 460 percent.

The rapid pace of Khrushchev's price readjustment during the 1950's halted briefly toward the end of the 1950's. It appeared that the rise in prices of agricultural products might lead to worker dissatisfaction. In December 1959 at a CPSU Central Committee meeting devoted exclusively to an examination of the agricultural situation, he said that some collective farms that grow cash crops, mostly those in central Asia and in the Caucasus, paid farmers a higher average wage than workers. He demanded a lowering of the prices of agricultural products concerned. In January 1961 at the first session of the Ukrainian Central Committee meeting, Khrushchev said that it must be realized that the country cannot further increase prices of products from collective farms, and that as workers raise productivity rates in industrial plants, production norms will be periodically revised. Their concern was how to lower production costs so that the country would be able to sell more tractors and other machines at cheap prices. But agricultural products such as meat, milk, and butter should also be somewhat cheaper. This was very important for workers (in production industries). But, under what conditions would it be possible to lower the retail prices of agricultural products? The condition would be when collective farms produced large quantities of products at low cost. This was the only way in which the country would be able to lower procurement prices and retail prices of agricultural products. The contradiction existing at the time and Khrushchev's blind guidance of agriculture may be seen from this. Despite a tremendous rise in farm and livestock product procurement prices, not only were achievements positively few in raising productivity rates and lowering costs in both the farming and livestock industries, but conversely a weird phenomenon of a rise in costs and retail prices occurred. Take the livestock industry, for example. In 1960, costs of producing beef, pork, mutton and eggs were from 60 to 100 percent higher than procurement prices. Wool production costs were 143 percent higher than procurement prices. Under these circumstances, increase in livestock industry output stagnated from the end of 1950 forward. Meat output fell from 8.9 million tons in 1958 to 8.7 million tons in 1961. During the same period, milk output rose only 1.5 percent. As a result of rises in prices and wages, purchasing power began to inflate, with the result that supply was unable to meet demand and goods went out of stock.

On 1 June 1962, the Soviet-led bloc was at a loss about what to do in the face of this contradiction, so it issued an appeal to the people about the rise in livestock product prices while simultaneously promulgating a decree explicitly explaining the ins and outs of the price rises, which is to say it raised retail prices. The average amount of increase in procurement prices

beginning on 1 June 1962 was as follows: 35 percent for livestock and poultry; 10 percent for butter; and 5 percent for cream. The retail price of meat and meat products in state-owned stores rose an average 30 percent, and butter rose 25 percent. The extent of price rise for various kinds of meat was as follows: An average 30 percent for beef; 34 percent for lamb and mutton; 39 percent for pork; and 31 percent for various kinds of sausages. At the same time prices of sugar refinery products were lowered 5 percent, and prices of rayon textiles were lowered 20 percent. Regrettably the decrease in prices of these goods was far from able to offset consumers' increased burdens. Livestock and poultry production continued to stagnate or even decline. This provoked public dissatisfaction, and in some cities riots occurred.

Just how great a role did Khrushchev's two tremendous increases in prices of farm and livestock products play in the development of farm and livestock industry production? Actual results were miniscule. Though there was some rise in grain output indices for the period 1954 to 1958, these were not stimulated by prices. The rise in output relied mostly on looting-style farming of the virgin lands. Increase in collective farm output was limited. In 1958, actual grain output of collective farms was approximately 75.11 million tons versus 70.13 million tons in 1953, an increase of only 7.1 percent. For the 4 following years, output fluctuated without advancing. In 1959, for example, it was 67.62 million tons; in 1960, it was 62.98 million tons; in 1961, it was 63.14 million tons; and in 1962, it was 65.76 million tons. The trend was toward decline and stagnation. A great crop failure in 1963 caused a further precipitous decline in cereal grain output to 51.5 million tons. This was 26.6 percent less than in 1953. The situation in livestock products was worse. As of January 1963, hogs numbered 70 million head, an all-time high. In early 1964, the number suddenly fell to 40.7 million head canceling out at a single stroke all the increase since 1957. Cattle declined from 87 million to 85.4 million head, and sheep and goats fell from 146.4 million head to 139.5 million head. Only approximately 60 percent of meat output plans were fulfilled. Khrushchev's boast of overtaking the United States in meat and dairy products output during the early 1960's was completely bankrupted.

What accounted for the failure of Khrushchev's price stimulation? This was the result of the intertwined role of various difficult to explain contradictions resulting from domestic and foreign policies. Armaments were increased for the sake of hegemony, and the one-sided development of military industries translated into investment in heavy industry, which created a serious proportional imbalance among agriculture, light industry and heavy industry, and insufficient supplies of consumer goods. Blind guidance was given to farming and livestock industry production. High quotas were set for agricultural procurement, and state procurement was high. In the distribution of farm earnings, too much was withheld for public accumulations, giving rise to popular dissatisfaction. Several illustrative examples are provided as follows: In investment in agriculture, such as in farmland irrigation, for example, planning had been done during the Stalin era. Irrigation projects were to be built in the basins of the Volga, Don, and Dnepr rivers. This was intended to bring about consistently high yields in agriculture. But

Khrushchev felt they did not make economic sense, and he selected virgin land plans that required spending less money. This decided the extreme weakness of Soviet agriculture's ability to withstand disasters. Even Khrushchev himself had to admit this subsequently. The designing of large-scale development of hydropower generation without linking it to agricultural irrigation was a mistake. Lack of efficiency by bureaucratic management was also a reason, as in the case of chemical fertilizer plants, for example. Even though retail prices had been raised to the point where peasants could hardly stand them, the plants were still unable to make a profit. Meanwhile, the increased income peasants derived from use of the fertilizer did not compensate their payment for fertilizer. Ammonium phosphate sold for 62.80 rubles per ton, however, it was in "big lumps" at the time of delivery to users, and farms had to spend at least 20 rubles to pulverize it, plus 20 rubles for transportation, paying approximately 100 rubles per ton. The increased grain yield from using it was no more than 2.5 tons at most, worth an average of 100 rubles. As far as blind guidance was concerned, both Malenkov and Molotov opposed large-scale opening of the virgin lands, for which they were slandered with "antiparty crimes." But the growing of spring wheat in the virgin lands that Khrushchev pursued obstinately brought about a loss of moisture, a proliferation of weeds, and soil erosion as well as "dust storms" that blotted out the sun, culminating in a disastrous crop failure in 1963. Khrushchev's efforts to grow corn everywhere without proceeding from reality or adapting general methods to specific places also came to grief. In the procurement of agricultural products, though Khrushchev increased procurement prices and further abolished the system of compulsory sales to the state and payment in kind to machine tractor stations in 1958, he set overly high procurement quotas and forced farms to sell; furthermore procurement plans changed from year to year, and additional quotas were regularly added in procurement. As a result, even the seeds and cattle feed that some farms had kept were bought up (in the name of purchases of excess grain). Khrushchev himself admitted that in 1959 the RSFSR gave to farms for use as seeds and livestock feed 22 percent of the grain quota that had been sold to it. Because of the too high procurement norms, during the 10 years of Khrushchev's rule procurement quotas were fulfilled in only 3 years, namely, in 1956, 1958 and 1964. Excessive procurement of excess grain was an important reason for the damage to agricultural production during the Khrushchev regime. In the realm of distribution, Khrushchev's price stimulation brought no real benefits to the peasants. This was because the proportion of farm accumulation funds withheld was overly high. As soon as he took office, Khrushchev emphasized an increase in farm accumulation funds. In bringing an end to the tractor stations in 1958, he "suggested" a further increase in the percentage of accumulation funds withholdings. Figured in terms of the average amount of investment per acre sown, collective farm investment of funds in 1953 was 3.60 rubles per acre. In 1958, this figure was raised to 8.70 rubles. In 1962, it was again raised to 11.60 rubles. The amount of investment was 59 rubles per household in 1953. This was increased to 150 rubles in 1958 and further increased to 200 rubles in 1962. During the Stalin era, the amount of investment per acre on state-owned farms was much greater than on collective farms, however, according to official USSR statistics, by the 1960's this difference had been eliminated. After 1958, a substantial portion of the increased collective farm investment was used for the purchase of new machines as a result of the abolition of the

state-owned tractor farms. Collective farms also had to pay the state 1.8 billion rubles compensation for the transfer of machines from the tractor stations. These payments plus the rise in prices of new machines and spare parts greatly increased accumulation rates, and could not but hurt the rise in peasant income. Statistics show an increase in remuneration averaging nearly 80 percent for workers on collective farms in 1957 versus 1952. This was the result of a 9 percent decline in agricultural product prices and the numbers of farm workers. However, in the bumper harvest year of 1958, compensation declined by an average 9 percent. At the CPSU plenum in March 1962, Khrushchev had no choice but to admit that the sacrifice of peasants earnings and overemphasis on public funds had been a mistake. Subsequently, individual peasant compensation increased 11.8 percent in 1962. As a result of natural disasters, individual income in 1963 remained substantially at the 1962 level. Nevertheless, despite a rise in farm workers individual earnings, the gap between their earnings and wages paid to workers on state-owned farms as well as agricultural workers was still very great. In 1963, the average income of a peasant on a collective farm was approximately 54 to 57 percent of the wages of a worker on a state-owned farm, and the average wages on state-owned farms were 70 to 73 percent of the wages of workers in production industries.

The various foregoing circumstances show multiple reasons for the stagnation of agricultural production in the USSR, but application of price stimulus policies in isolation were unable to solve the problems.

3. Agricultural Product Prices Following Brezhnev's Rise to Power

Khrushchev had relied on agriculture to make a name for himself, so when agriculture failed, he quickly fell from power. As soon as Brezhnev came to power, he exerted every effort to remedy the agricultural crisis. On 3 March 1965, a conference devoted solely to discussion of agricultural problems was convened under his auspices. Subsequently this conference was lavishly praised as a "major milestone" in Brezhnev's "success" in agriculture. At the conference, Brezhnev made a report titled, "Urgently Required Actions for Further Development of Soviet Agriculture." This report berated Khrushchev without naming names, while simultaneously providing a prescription for turning around the antiquated state of agriculture, emphasizing so-called "improvement of the agricultural product purchase and procurement systems," with price stimulation being a major link.

During Khrushchev's time, agricultural product purchase plans changed every year, but now this was to be changed to "fixed agricultural product purchase plans." At the same time, procurement quotas were to be lowered, the 1965 cereal grain procurement plan being lowered from 4 billion pood to 3.4 billion pood, with no further changes to take place for 5 years. In the price field, basic procurement prices for wheat, rye and certain other grains were increased from 50 to 100 percent. In order to encourage collective farms and state-owned farms to sell products in addition to those called for in fixed-plan, an additional price (i.e., a bonus sale price) equivalent to 50 percent of the basic procurement price was paid for wheat and rye sold to the state in excess of plan. Procurement prices for buckwheat and husked rice were also increased greatly. The price paid for buckwheat was increased from

200 rubles to 300 rubles per ton, and the price of husked rice was increased from 220 to 300 rubles.

Procurement norms for livestock products were also readjusted. Unlike cereal grains, procurement prices for livestock products had risen yearly between 1965 and 1970. Still, the new procurement quotas set in 1965 were lower than those that had formerly been set by the Khrushchev government. Even though Khrushchev had several times increased livestock product procurement prices, Brezhnev still felt they were not high enough for producers to make a profit, and he decided to raise procurement prices for cattle by from 20 to 55 percent, for pigs by from 30 to 70 percent, and for sheep and goats by from 10 to 70 percent.

As a result of this price readjustment, Soviet cereal grain and livestock procurement prices in 1965 were greater than or close to world prices.

As a result of having learned Khrushchev's lesson of mass riots brought about by a rise in meat retail prices, Brezhnev promised that there would be no rise in prevailing retail prices of grain, meat and meat products when procurement prices were raised.

Five years after this tremendous increase in farm and livestock product procurement prices i.e., in 1970, the USSR Politburo made a "Decision on Increasing Profit Rates for Livestock Product Production." The program specifically set an average 20 percent increase in procurement prices for milk and cream. At the same time that new procurement prices for livestock were instituted, procurement prices for sheep, goats and domestic rabbits were raised. In some regions and republics, cattle prices were also raised. In order to encourage intensive breeding and fattening of calves and selling to the state of heifers meeting higher standards, each of the different regions of the country prescribed that when collective farms and state-owned farms sold cattle to the state, a 35 to 50 percent premium procurement price (bonus price) was to be paid for animals weighing more than 300 to 420 kg, etc.

In order to guard against dissatisfaction by consumers, Brezhnev further promised "no increase in retail prices of meat, milk, and other products."

The third time that Brezhnev raised farm and livestock product prices was decided at the CPSU Central Committee plenum of July 1978. He called for a rise in procurement prices (with no change in retail prices) for cow's milk, wool and goat hair, lambskins, mutton, potatoes and certain vegetables beginning on 1 January 1979 so as to assure a profit to collective farms and state-owned farms for the production of these categories of products. Brezhnev also figured out that as a result of price increases, the state would increase agricultural income approximately 3.2 billion rubles annually. In other words, as a result of price increases, the state would annually provide 3.2 billion rubles in benefits to farms from public funds.

Evaluation of the success or failure of Brezhnev's price policies necessitates a comprehensive analysis of the development of agricultural in the USSR during the past 13 years, measures taken to increase production, and existing problems. On the basis of existing data, we feel the following:

A. Under Brezhnev's rule, the USSR's farming and livestock industries made definite advances manifested in the following ways:

1. Grain output increased. According to officially published Soviet statistics, during the Seven-year Plan (1959-1965), gross output of grain averaged 12,800 tons annually. During the Eighth 5-year Plan (1966-1970), gross output averaged 167.5 million tons annually, an average annual increase of 39.5 million tons. During the Ninth 5-year Plan (1971-1975), gross output averaged 189.6 million tons annually, an average annual increase of 22.10 million tons.

2. Output of livestock products also increased. In 1975, meat slaughtered reached 15.2 million tons versus 9,956,000 tons in 1965 for a 5,244,000 ton increase. Milk output reached 90.8 million tons versus 72,563,000 tons in 1965, an 18.23 million ton increase. Egg output reached 57.7 billion versus 29.07 billion in 1965, a 28.63 billion increase.

B. These advances were interrelated to the following measures:

1. Substantial increase over the past in investment in agriculture. During the Sixth and Seventh 5-year Plan periods, (during the Khrushchev regime), gross investment in agriculture was 74.1 billion rubles. During the Eighth and Ninth 5-year Plan periods (during the Brezhnev regime), investment in agriculture reached 19.67 billion rubles, a 1.65-fold increase. Investment in agriculture as a percentage of gross investment in the national economy was 16 and 18 percent, respectively, during the Sixth and Seventh 5-year Plan periods. During the Eighth and Ninth 5-year Plan periods it was 21 and 24 percent, respectively. In 1975, it rose to 27 percent. As a result of the increased investment, the levels of mechanization, electrification and use of chemicals in agriculture rose substantially. Use of chemical fertilizer increased markedly, in particular. Between 1963 and 1965, an average 8 million tons of chemical fertilizer was used annually. Between 1966 and 1970, the average was 12 million tons annually, and between 1971 and 1975, the average was 20.9 million tons annually. This was the most important factor in increases in yields per unit of area.

2. Institution of a fixed wage system for collective farm personnel, yearly increases in wage levels, and gradual narrowing of the wage gap between collective farm and state-owned farm workers to stimulate production. In 1965, wages of all categories of collective farm personnel averaged 51.50 rubles; in 1975, it was 93.50 rubles; and in 1977, it was 105 rubles. In 1965, the average monthly wage of collective farm personnel was 69 percent that of state-owned farm personnel and 53.4 percent of the average monthly wage of staff members and workers in all sectors of the national economy. In 1974, the average monthly wage of collective farm personnel was 73 percent that of state-owned farm workers, and 64.4 percent of the average monthly wage of staff members and workers in all sectors of the national economy. The gap between wages of state-owned farm workers and staff members and workers in all sectors of the national economy also narrowed.

3. Institution of "fixed agricultural product purchase plans," and lowering of procurement quotas to raise peasants interest in production.

C. Soviet agriculture has not come up to standards by any means. The rise in procurement prices for farm and livestock products was a measure that raised costs in order to prevent a decline in output.

1. Ability to withstand disasters is poor, and fluctuations in production are large. This is related to the insufficient investment in agriculture.

Despite substantial increase in investment in agriculture during the Eighth and Ninth 5-year Plans, it is still a very long way from meeting actual needs. Two-thirds of the Soviet Union's marketable grain is grown in arid areas. The eastern grain growing center at Kazakhstan averages a drought every 1.5 years, and large investment is required to solve problems in afforestation and irrigation. Despite increases in Soviet investment in agriculture, use of investment for thoroughgoing solution of irrigation and drainage problems is still very poor. As of the present time, no more than 25 million-odd hectares of land in the USSR have been irrigated and drained. This has been admitted by Brezhnev himself. This figure amounts to only 11 percent of the total 225.3 million hectares of cultivated land in the Soviet Union. During the Tenth 5-year Plan (1976-1980), plans called for expansion of irrigated and drained farmland by 9 million hectares, and had this succeeded, it would still have amounted to no more than 15 percent of the total cultivated land area. Can investment in agriculture be further increased? This depends on whether the USSR is able to give up its hegemonist line of military expansion in preparation for war. Military expenditures during the period of the Eighth and Ninth 5-Year Plans amounted to 524 billion rubles or 33.19 percent of budgeted expenditures (officially reported Soviet military expenditure figures are 1,690 rubles [(as published; presumably 169 billion rubles was intended)]. Investment in agriculture during these two 5-year plans was no more than 196.7 billion rubles, or only 12.45 percent of budgeted expenditures (of the 196.7 billion rubles, 72.3 billion rubles was invested in collective farms of which the state invested 124.4 billion or only 7.8 percent of the total budgeted expenditure).

As a result of slow progress in the building of farmland water conservancy, Soviet agriculture's ability to withstand disasters is extremely weak. Though average grain output rose each year during the Eighth and Ninth 5-year Plans, there were very great ups and downs from one year to another. During the Ninth 5-year Plan in particular, output dropped in 4 years, a rarity in the history of Soviet agriculture. In 1975, grain output plunged to 140 million tons, the average amount of grain per capita being lower than in 1913. (In 1913, the population was 1.39 billion [as published; presumably 139 million was intended], and gross grain output was 81.2 million tons, or an average of 584 kg per capita. In 1975, the population was 254.3 million, and gross output of grain was 140 million tons, an average of 550 kg per capita).

Present Soviet policy calls for energetic development of animal husbandry and an increase in the supply of meat, eggs, and dairy products to buy popular support. This has occasioned a great increase in demand for feed grains. (In 1974, total grain consumption was 177.09 million tons. This included 44.53 million tons, or 25 percent, for human consumption. Grain used for livestock feed totaled 93.34 million tons, or 53 percent, and grain

used for seed and industrial purposes amounted to 39.22 million tons, or 22 percent). When output of grain declines suddenly, there is no choice but to import large quantities in order to keep livestock alive and output of livestock products stable. Up until 1963, the USSR was a grain-exporting country. Since the failure of Khrushchev's agricultural policies and the crop failure of 1963, the USSR turned into a grain-importing country. Imports were greatest during the Ninth 5-year Plan. During 1972, 1973, 1974, and 1975, there was a continuous struggle to import 42.42 million tons. Even so, it was impossible to halt entirely a decline in the number of livestock in inventory. The cattle situation was somewhat better in this regard, but rise and fall in the number of hogs in inventory was most marked. During the Eighth 5-year Plan, a cumulative drop by 20.9 million head of hogs occurred during 1966, 1967 and 1968. During the Ninth 5-year Plan, there were 4.8 million fewer hogs in 1972 than in 1971, and in 1975 there were 14.5 million fewer than in 1974, the number in inventory being lower than in 1960.

2. A decline in results from investment in agriculture and no rapid rise in the labor productivity rate.

During the Sixth 5-year Plan, for every ruble invested in agriculture, output value increased by 3.07 rubles. During the Eighth 5-year Plan, this dropped to 0.95 rubles, and during the Ninth 5-year Plan, it fell again to 0.43 rubles (See Table 17).

Table 17. Decline in Effectiveness of Investment in Agriculture in the USSR

	Average Annual Investment	Average Annual Amount of Growth As Compared With Gross Output Value of Agriculture in Previous Period	Amount of Increase in Gross Output Value of Agriculture per Ruble of Investment in Agriculture
1956-1960	57	175	3.07
1961-1965	91	71	0.78
1966-1970	149	142	0.95
1971-1975	244	105	0.43

Reasons accounting for this phenomenon were planning on too grandiose a scale, decentralization of funds, manpower and material resources, and inability to complete projects and hand them over for use for a long period of time. Soviet leaders have confessed that some huge construction projects, including irrigation products, have been going on for from 10 to 15 years, and there are even numerous still uncompleted irrigation systems that have been forgotten.

The trend in growth of the agricultural labor productivity rate since the beginning of the USSR's Seventh 5-year Plan has been toward decline. A look at actual achievements shows a 36 percent increase in the agricultural labor productivity rate during the Sixth 5-year Plan, a 27 percent increase during the Seventh 5-year Plan, a 32 percent increase during the Eighth

5-year Plan, and a 14.6 percent increase since the Ninth 5-year Plan. Comparison of the United States and the USSR shows that in 1978 each member of the agricultural population in the United States fed 59 people; in the USSR, each member fed only 10 people.

3. A steady rise in agricultural costs.

Ever since the 1960's except for hen's eggs, costs of agricultural and livestock products in the USSR have risen year after year. Rise in costs of all categories of products for 1974 versus 1960 is shown in Table 18.

Table 18. Changes in Costs of Agricultural and Livestock Products in the USSR from 1960 to 1974

(Unit: rubles per ton)

	1) 谷物		2) 籽棉		3) 土豆		4) 牛(育肥)		5) 猪(育肥)		6) 奶	
	7) 成本	1960 = 100	7) 成本	1960 = 100	7) 成本	1960 = 100	7) 成本	1960 = 100	7) 成本	1960 = 100	7) 成本	1960 = 100
1960	40	100	207	100	32	100	916	100	1226	100	133	100
1974	50	143	410	198	82	256	1401	153	1305	106	202	152

Key:

- 1) Cereal grains
- 2) Unginned cotton
- 3) Potatoes
- 4) Cattle (fattened)
- 5) Hogs (fattened)
- 6) Milk
- 7) Costs

One of the reasons for the rise in costs as it relates to consumption of live labor has been a rise in wages greater than the speed of rise in labor productivity rate. During the eighth and ninth 5-year plans, the labor productivity rate increased 60 percent, while the increase in labor compensation doubled. (ORIENTAL ECONOMY magazine article titled, "No Rise in Soviet Agriculture and Analysis of Reasons Why," October 1975). There are also numerous reasons related to consumption of materials, such as the rise in prices of the means of production, farm machines, chemical fertilizer, fuel, and livestock feed. Farm machine quality is shoddy, repair costs are high and there is waste in the transportation and storage of chemical fertilizer, etc. In short, high costs are an overall reflection of various bad consequences resulting from the USSR's domestic and foreign policies.

The foregoing problems explain the repeated rises in farm and livestock product procurement prices after Brezhnev came to power and his statements that they were for the purpose of increasing peasant income. He should have said that in view of the steady rise in agricultural costs, they were

measures he was forced to take lest peasants be unable to make any profit at all, resulting in a fall in production. At the Central Committee plenum of July 1978, Brezhnev revealed his distress at a decline in agricultural production that would force a rise in prices. He said that many matters had not gone smoothly during the previous several years. Prices of some goods did not pay collective and state-owned farm expenses in producing them. Where would this lead? The more of such products collective and state-owned farms produced, the greater their losses would be. The speed of increase in production would slow consciously or unconsciously, and for this reason some places were even planning to cut production. Naturally, it is necessary to increase the labor productivity rate and lower costs unswervingly, however, prices of some products must be simultaneously increased to a certain extent.

Price stimulation has itself brought new contradictions in its wake. One has been imbalance between purchasing power and supplies of consumer goods. Another has been tight government finances. According to statistics, USSR ability to guarantee consumer goods to residents was 85 percent in 1960, 76.7 percent in 1965, 82 percent in 1970, and 80 percent in 1973. The trend was toward decline. The Soviet magazines, *ECONOMIC PROBLEMS* and *THE SOVIET WORKER* revealed that it was possible to satisfy only 75 percent of needs for 10 basic foods, 50 percent of needs for durable items used in cultural life, 33 percent of needs for woolen Western-style clothing, and 84 percent of needs for male and female undershirts. Supply of materials to rural villages was particularly critical. In 1975, sales of goods to cities and towns amounted to 163.8 billion rubles, but sales of goods to rural villages amounted to only 46.8 billion rubles. As a result of the lack of consumer goods in the countryside, numerous peasants travel to cities to buy things, and this puts pressure on supplies in cities.

The steady increase in price stimulation in the USSR has also placed increasingly heavy burdens on public finances. For example, it is said that up until 1959 the rise in agricultural product procurement prices was made possible by the overly high profits resulting from the difference between agricultural product procurement prices and retail prices. But this potential had been pretty much used up by 1959. (In 1952, the wheat procurement price was only 19 percent higher than in 1929 while the retail price in state-owned businesses was more than 10 times higher than in 1929. In 1959, however, the wheat procurement price was 7.8 times higher than in 1928, while the retail price in state-owned businesses was 8.9 times higher than in 1928). In 1970, livestock product procurement prices were raised. It has been calculated that this caused the additional payment of 110 billion rubles from public funds during the period of the Ninth 5-year Plan. At a rate of 22 billion rubles annually, this took up about 10 percent of budget expenditures. If price stimulation were able to play a role in advancing production and lowering costs, that would have been worthwhile, but the trend was toward a constant rise in agricultural product costs. Thus, the treasury has had to carry an increasingly heavy load.

(Compiled by Chen Baosen [7115 1405 2773])

Hungarian Agricultural Product Price Policies

Up until World War II, Hungary was a backward, semifeudal, semicapitalist agricultural country with a very low level of productivity. After the war, land reform was instituted and cooperativization carried out twice. This was substantially completed by 1961. Agricultural production did not develop rapidly after recovery from the wounds of war. During the early 1960's, Hungarian leaders began to devote serious attention to agricultural production. They adopted numerous effective measures including scientific and technical measures, organizational and administrative measures, and financial and economic measures that steadily speeded up agricultural production. The labor productivity rate rose markedly, and within a period of 10-odd years, agriculture turned over a new leaf.

If the 1960 agricultural production index was 100, by 1978 it was 175.5, making it second only to Romania (200.6) among the CEMA countries in speed of growth. In 1978, grain output reached 26.89 million jin, almost double the 1960 output. Grain yields in 1978 reached 594 jin per mu, a 1.3-fold increase over 1960 (261 jin). In 1960, grain production was 7,600 jin per member of the work force; in 1977 the figure was 25,000 jin. In 1977 net grain exports were 1.47 billion jin, and the country was more than self-sufficient in other major agricultural products. Grain exports were 20 percent of total annual output, meat exports one-half, and fruit one-third. Exports of agricultural products accounted for one-third the nation's total exports. In short, Hungary's agriculture has developed rapidly since 1960, and Hungary has changed within a fairly short period of time from a grain-short country to a grain-exporting country.

As agricultural production developed, the gap between industrial and agricultural earnings gradually disappeared. During the first half of the 1930's peasant income was only 40 percent that of workers. During the mid-1950's, it was 60 percent that of workers. In the 1960's, the gap between worker and peasant earnings gradually narrowed. In 1965, the monthly income of peasants on cooperatives derived from collective labor averaged 1,002 forints (equivalent to 100 yuan RMB), 8 to 10 percent lower than for workers. By 1968, peasant income had virtually caught up with that of workers. Since institution of the new economic system in 1968, the gap has narrowed further, thereby erasing the imbalance between worker and peasant earnings. During the 10-year period 1966-1975, worker income increased an average 97 percent, while peasant income was 4 to 7 percent higher than worker income. In 1977, average monthly income of cooperative members increased to 3,280 forints (approximately equivalent to 328 yuan RMB), and in 1978 it increased again to 3,445 forints (equivalent to 344 yuan RMB). In the welfare benefits field, both peasants and workers alike enjoyed free medical treatment and retirement payments. Peasant living conditions and diet were better than those of workers. Electric refrigerators, washing machines and television sets became items in daily use in the lives of an overwhelming majority of peasant households. As a result, today the problem that Hungary has to solve in the area of income differences between workers and peasants is too fast an increase in peasant income.

Hungary's eradication within a fairly short period of time of differences in worker and peasant earnings was a very great achievement. In the countries of Western Europe, it had not been possible to eradicate the imbalance between worker and peasant earnings until the population employed in agriculture had fallen below 20 percent of the national population. But in Hungary, in 1968 the agricultural labor force was still 25.7 percent of the total labor force in society. Peasant income substantially catching up with worker income was attributable largely to hastened agricultural modernization and a rise in the agricultural labor productivity rate that assured peasants increased earnings from increased production. In addition, serious attention was given to small-scale agricultural production, namely, results from the private plot economy and the supplementary economy.

Hungary instituted new price policies in its process of agricultural modernization.

Up until 1957, prices of Hungarian agricultural products were of three kinds: compulsory prices in sales to the state, contract prices and free prices. Compulsory prices were low. For example, the state requisition procurement price for wheat was 60 forints per quintal, while the contract price was three times as much, and the free price between five and six times as much. The amount of goods sold at compulsory prices was very great. In 1956, 59 percent of the grain was sold at this price. In 1956, following abolition of the agricultural product compulsory sale price system, a two-price system of state procurement prices and free market prices was instituted. The state procurement price was 28.5 percent higher than the former state requisition procurement price as a result of which prices of all agricultural products rose 19 percent. In 1966, procurement prices of farm and livestock prices were again raised several times. First procurement prices for meat and wheat were raised 9 percent, while prices of farm machines were lowered 20 percent at the same time.

When economic reform was carried out in 1968, the old system was abolished whereby the state directly handed down production quotas to agricultural cooperatives. Agricultural cooperatives practiced independent administration with sole responsibility for their own profits and losses. They themselves decided what crops they would grow and what livestock they would raise. The state used procurement prices, investment subsidies, loans, the signing of contracts and such economic methods to implement its will and assure fulfillment of state plan. The Hungarian Government ruled that when formulating prices for agricultural products attention had to be given to "guaranteeing producers that they would both be able to recover costs and be able to make a certain profit," the peasants thereby gaining increased income from increased production. For example, up until 1967 the fixed price of wheat was 270 forints per quintal. This was raised to between 290 and 300 forints in 1968, and this price continued right up until 1975. As a result of development of agricultural techniques, average costs for growing wheat declined, and the fixed price assured a fairly substantial profit. Comparison of 1975 with 1965 shows an average 53 percent increase in procurement prices for farm and livestock products. This narrowed the price difference between industrial and agricultural products. In setting prices for agricultural

products, Hungary generally used farming conditions on medium soil as the standard. For the 28 percent of agricultural cooperatives in the country in which natural conditions were relatively poor, the state provided a 10 to 20 percent price subsidy so that earnings of cooperative members in poor cooperatives would not be more than 15 percent lower than for cooperative members in other agricultural cooperatives. It gave economic support to agricultural cooperatives having relatively poor conditions. For agricultural cooperatives farming top-quality soil, graduated taxes were imposed to offset some differential land rents.

The way in which the state managed grain prices was for the government to set procurement prices for grain to be used in making bread. For livestock feed, no matter whether the grain was traded through state grain procurement or on the free market, its price was not restricted in any way. Bread and wheat flour supplied for consumption was sold at a uniform price within limits set by the state, the state providing large subsidies. The government formulated no specific measures for consumption of livestock feed grain, but provided subsidies regularly.

In addition to instituting the foregoing price policies, in order to provide support to agriculture, the Hungarian Government simultaneously increased investment in agriculture and investment subsidies.

Investment in agriculture has been fairly rapid since 1960. In 1960, investment (including investment in forestry, and the same applies hereinafter) was 6.1 billion forints. This was increased to 30.1 billion forints in 1977, an almost fivefold increase. A look at different periods shows that during the Second 5-year Plan (1961-1965), 36.5 billion forints was invested in agriculture (about 20 forints equals \$1), which was 17.3 percent of national economic investment. During the Third 5-year Plan (1966-1970), investment in agriculture increased to 63.3 billion forints, which was 19.5 percent of total investment in the national economy, a 7.3 percent increase in investment over the Second 5-year Plan. During the Fourth 5-year Plan (1971-1975), investment in agriculture as a percentage of investment in the national economy fell to 16 percent, however, the absolute investment figure increased to 100.9 billion forints, a nearly 60 percent increase over the previous 5 years. During the early 1970's, Hungary's agriculture was substantially over the hump, and despite a decline in investment in agriculture as a percentage of total investment in the national economy, absolute figures increased.

Prior to 1968, Hungarian investment in agriculture was entirely uncompensated. After 1968, investment was changed to either loans or subsidies. Loans had to be repaid, but subsidies continued to be uncompensated. In order to help cooperatives with poor conditions change their circumstances, during the 2-year period from 1966 to 1968, the state excused some agricultural cooperatives having poor conditions from payment of debts that had accumulated over the years totaling 13 billion forints. In 1976, the state bank issued agricultural loans of various kinds totaling 2.6 billion forints, which was 12 percent of the total amount of loans. Agricultural loans carried a 6 to 9 percent interest rate and were repayable within 1 to 5 years.

For agricultural cooperatives that had themselves invested in order to expand reproduction, the state provided investment subsidies. For example, cooperatives could receive state subsidies ranging from 20 to 40 percent of the cost of capital construction projects, such as building poultry farms, granaries, small reservoirs, pesticide and chemical fertilizer plants, and for sinking wells. They could receive state subsidies for 50 percent of soil improvement costs, a 70 percent subsidy for the building of water conservancy facilities, a 10 to 47 percent subsidy for the purchase of large agricultural machines, a 40 percent subsidy for the purchase of aircraft or helicopters used in crop protection, and a 70 percent subsidy for purchase of machinery used in the growing of vegetables, potatoes, sugarbeets and tobacco. The maximum subsidy was 90 percent. Up until 1971, state subsidization of investment in agriculture was greater than tax revenues from agriculture. For example, in 1970, the state subsidy to agriculture was 11.8 billion forints, but tax revenues from agriculture for that year were 8.5 billion forints. In 1971, agricultural taxes produced 11.9 billion forints, but state subsidies to agriculture amounted to 10.7 billion forints.

Hungary's use of investment subsidies effectively encouraged and regulated agricultural production. At the end of the 1950's, in order to develop modern hog-raising enterprises rapidly, the state provided 50 to 70 percent subsidies for investment in the building of modern hog-raising farms. By 1974, the country built a total of 289 large hog farms. In order to develop vegetable production rapidly, investment subsidies for vegetable irrigation were raised from the former 40 percent to 50 percent in 1977, and vegetable procurement prices were raised 40 percent. Other economic devices were also used with the result that vegetable production increased 40 percent over 1976. The country provided various preferential benefits to small producers. For example, farm machine prices fell 20 percent, chemical fertilizer prices fell between 37 and 53 percent, pesticide prices fell 21 percent, and prices of plastic enclosures fell 20 percent. All who signed 3-year vegetable procurement contracts with the country could enjoy 40 percent price reductions in the purchase of plastic enclosures. Second was preference in taxes and loans. In 1980, small agricultural producers throughout the country worked a total of 2.7 billion hours, 10 percent more than the total number of hours worked in large agricultural enterprises. In the same year, the gross output value of household sideline occupations was 61 billion forints (\$1 equals 35 forints), or approximately one-third the value of the whole country's agricultural products. They were annually able to produce on one-tenth of the country's cultivated land one-third of the country's farm and livestock products. In Hungary today, 30 percent of peasant earnings come from the private plot economy.

As was pointed out above, by the 1970's peasant monthly income in Hungary was between 4 and 7 percent higher than for workers. Nevertheless, price differences between industrial and agricultural products, i.e., the so-called "specific value scissors" continued to exist. Calculations based on the percentage of the total work force engaged in industry and agriculture and the percentage of industrial and agricultural output value in gross output value showed a 31.58 percent difference in 1977. (Certainly these

calculations are not completely scientific and can only be regarded as approximations). Should these price differences be allowed to exist? Should they be eradicated? This is a question on which there are different views in Hungary.

In accordance with the thesis that prices must be in accord with value, many people feel that in Hungary today prices of industrial manufactures are overly high and that agricultural product prices are overly low. They advocate a steady rise in agricultural product prices in order to get rid of the price "scissors" between industrial and agricultural products, and realize exchange at equal value.

However, quite a few people feel that in order to distinguish whether or not industrial and agricultural price levels are equitable, the relationship between revenue policies and the role of taxes must be examined. A necessary relationship must be established between price policies and tax policies. The net income created by all sectors of industry and agriculture may be regulated through taxation to achieve the goal of equal income. In fact, the net income that industrial enterprises create is concentrated in the hands of the state through tax collections. They believe that on the basis of existing prices for agricultural products today, it is possible only to increase agricultural tax burdens and not possible to raise prices again. If agricultural product prices rise, then agricultural taxes will have to be increased or price subsidies be reduced, or prices of industrial manufactures used in agriculture raised in order to maintain a balance between industrial and agricultural income.

Hungarian economists also believe that in developing countries, inhabitants use a fairly large percentage of their earnings for food, consequently, it is necessary to maintain fairly low food prices and fairly high prices for industrial manufactures. The converse is true in industrially advanced countries.

On 1 January 1981, Hungary raised procurement prices for many agricultural products by an average 5 percent. This included the procurement price of wheat used for human consumption, livestock feed grain, corn, sugarbeets, and tobacco, prices for which were raised, respectively, by 20, 25, 8, 5 and 200 forints per 100 kg. However, this did not narrow price differences between industrial and agricultural products because the state simultaneously made large increases in prices of the agricultural means of production. Even so, costs rose only 80 percent with a rise in procurement prices being relied upon to make up for the remaining 20 percent. Large enterprises had to compensate by increasing their labor productivity rates, increasing output and practicing conservation. The effect on small-scale production was probably not great.

(Compiled by Liang Wuxia [2733 3541 3838])

Brief Account of Means of Production Price Reforms in the USSR

Preparations for reform of prices of industrial goods in the USSR (including the means of production and consumer goods) began in 1965 when Brezhnev decided to promote a new economic system. Prior to the reform, prices of the means of production in the USSR were very irrational. Prices were high and profits large in many processing industries, while prices were low and profits small in extraction industries and certain raw and processed product industries. The entire coal industry lost money. The USSR believed that this state of affairs was a major obstacle to a new economic program centering around profits and bonuses.

An all-around price reform program was instituted in 1967 whose goal, in the words of Kosygin, was "to make wholesale prices of industrial manufactures reflect to a maximum degree the required expenditure of social labor, to insure that production and circulation expenses were compensated, and to guarantee that every regularly working enterprise earned a profit." Though price problems that had accumulated over a long period of time were solved following this all-around reform, prices of numerous industrial manufactures became inequitable in turn as a result of rapid changes in production conditions in all industrial sectors, and in 1970, 1973, and 1976 partial readjustments were made. This year (1980), the USSR announced that as of 1 January 1982 a substantial readjustment would be made in wholesale prices of industrial manufactures. In order to meet needs for development of production and institution of the new economic system, for more than 10 years the USSR felt its way along the road of means of production price reforms. We may be able to draw useful lessons from some of their experiences.

1. The Problem of What Profit Rates Should Be Used in Setting Prices as Well as Profit Averaging

Costs and profits (or taxes) determine product prices. Before the USSR reformed prices of industrial manufactures in 1967, a discussion had been launched in academic circles about what profit rates should be used to set the amount of profit relative to costs. There were roughly three schools of thought at the time. One school advocated use of a wage profit rate; another school advocated a cost profit rate; and the third school advocated a funds (production funds) profit rate. Using this discussion as a basis, the 1967 reform generally adopted the funds profit rate. In explaining the reasons for adoption of the funds profit rate, Soviet economist Xitening [phonetic] said, "Machine manufacturing industries form the foundation of a socialist economy, consequently, it is necessary that prices be able to stimulate optimum use of production funds." During the final stages of this discussion, quite a few economists proposed the setting of profits in terms of a certain percentage of wages and funds (termed double-channel prices, for short). Others also proposed the addition of a natural resources factor in addition to these two factors (termed three-channel prices, for short). Today, most economists advocate adoption of an overall price rate in which numerous factors are added together, setting the best price on this.

In 1963, the average rate of profits on funds in the USSR was approximately 13 percent. In designing the reform program of 1967, the USSR made some calculations that showed that industrial enterprises' net profits (including taxes on transactions in the heavy industry sector) amounted to about 20 percent of total funds (the total of fixed assets and circulating funds). In order to provide enterprises with a little advantage, the fixed price profit rate on funds was set at 15 percent. This rate was, in fact, a general parameter placed on every sector and particularly on every kind of product. The difference in profit rates remained very large. For example, as a result of the 1967 price reform, the profit rate on funds in the coal sector was 8.2 percent in 1968; in the petrochemical industry, it was 30.3 percent, a 2.6-fold difference. In other sectors, such as electric power, it was 10.6 percent, construction materials 14.2 percent, the chemical industry 16.2 percent, black metallurgy 19.2 percent, forestry, timber processing and paper making 20.1 percent, machine manufacturing and metal processing 21.2 percent, and petroleum extraction and the petroleum industry 25.5 percent. Why could not profit rates for all sectors and their products be evened out at a general 15 percent? Analysis shows the following several reasons: (1) The 1967 price reform was premised on guaranteed retail prices of consumer goods. If retail prices of the agricultural means of production were stable, a 15 percent profit rate for some industrial products (such as coal) would require very high price rises, and the state would have to carry a heavy price subsidization burden in order to guarantee prices of consumer goods. (2) There were differences in both the composition of funds and speed of turnover in individual sectors. Even if the annual profit rate on funds might be close in two sectors, profit rates per unit of products would have to be different. (3) Prices of certain goods had to be set somewhat high in order to regulate supply and demand, and profit rates would have to be raised to stimulate production. In order to promote conservation of goods and substitution of one for another, as, for example, substitution of coal for petroleum, coal prices had to be set higher than petroleum prices. (4) Sometimes there were substantial differences from one enterprise to another in production expenses for similar products. In order to assure that most enterprises could earn a profit, profit rates for a sector had to be set higher than 15 percent.

Several partial readjustments to prices of industrial goods were made following the USSR's 1967 reforms, however, these did not achieve a leveling of profit rates for sectors or products.

2. The Problem of Figuring Costs in Prices

In the USSR's 1967 price reform, the principle of average costs in sectors continued to be used. This reflected the transfer of the average value of the means of production consumed and the average value of labor compensation into products during the process of production in each sector. Approximately 75 to 80 percent of industrial goods wholesale prices in the USSR are costs. Prior to reform, different places had figured as part of costs things such as bonuses awarded technical and managerial personnel on projects, bank loan interest, and fines levied for failure to live up to contracts. Now these were treated as payments made out of profits. In addition, for many mine products, some geological prospecting expenses were included in production costs.

Discussions were also held in the process of prices reform on how to figure costs accurately so that they reflected society's necessary expenditure of labor. Numerous problems still await solution, such as whether expenditures for scientific research and design work should be included and lack of uniformity. Some are paid for out of the national budget; some are paid for out of centralized funds for development of science and technology, and some are included as costs. Some payments by society of a production nature are not completely reflected in production costs. For example, geological prospecting expenses recompensed as costs are less than one-fourth of this category of expenditures. Water conservancy expenses, expenses for replotting land, and road building and road maintenance expenses are not included in production costs. Only the three-fourths of necessary expenditures of labor by society for reproduction that is in the form of wages is included as costs. In addition, equipment maintenance and repair, equipment operating expenses, and other miscellaneous expenses that go into various products is also a complex problem. The USSR is currently studying application of electronic computers to improve accuracy in accounting for these expenditures.

3. The Problem of How Price Levels Meet Changes in Production Conditions

The Soviet Union has consistently opposed so-called "market socialism" in its economic reforms, disapproving free floating prices. However, consumption of materials and labor productivity rates regularly change in all industrial sectors, and this creates difficulties for price planning and management.

The overall trend of changes in costs of all kinds of goods in the USSR is toward a rise in costs and a decline in profits as a result of depletion of natural resources for the extraction industries and the raw and processed materials industries, and the eastward shift of the centers where these resources are located (the frigid zone of Siberia). Take the three sectors of coal, forestry, and metallurgy, for example. In 1965, their rate of profit on funds was 17, 6.9 and 8.6 percent, respectively. Following the 1967 price reform, the profit rate rose by 8.2, 20.1 and 19.2 percent, respectively, but in 1970 it declined again to 7.3, 20 and 17.2 percent, respectively, and in 1974 it declined further to 3.5, 14 and 15 percent, respectively. On the other hand, as a result of technical advances and a rise in labor productivity rates, profits rose rapidly in processing industries, such as machinery, electronics, and chemical polymer products. Take the chemical industry, the petrochemical industry and the machine-building sectors as an example. In 1965, their profit rates on funds were 14.6, 23.7 and 16.7 percent. The 1967 reform lowered the prices of products in these sectors on which profits were overly high. Nevertheless, in 1968 the actual profit rates they achieved rose to 16.2, 30.3 and 21.2 percent, respectively. In 1970, they rose further to 17.4, 31.5 and 22.8 percent, respectively.

The USSR does not advocate free floating prices, however, lack of change necessitates myriad changes that make the price structure increasingly irrational, and it is unable to meet needs for development of production and implementation of a new economic system. In order to overcome these contradictions, the USSR has made small readjustments in industrial goods prices once every 3 to 5 years, and one major readjustment during the past

10 years. Following the 1967 price reform, overly high profits in processing industries were abolished and prices of certain high profits of the machine-building industry were lowered in 1970. In 1973, wholesale prices in the machine-building industry and the metal-processing industry were again lowered 3.4 percent. Prices of coking coal, iron ore and rolled black metal were raised. In 1976, the level of all industrial wholesale prices (including transactions taxes) were lowered 3.5 percent, including a 21.5 percent lowering of the wholesale prices in the machine-building industry and the metal-processing industry. Though these small readjustments were necessary, they still did not solve the whole price structure problem, therefore, after the 1976 price reform, for the 15th year, namely, in 1982, another fairly large-scale price readjustment was made.

According to a TASS dispatch, prices of various goods (amounting to two-thirds of the total goods in society) with a value of approximately 1 trillion rubles no longer meet changed production conditions. The USSR plans to lower prices of electronics industry products 20 percent beginning in 1982 in order to encourage all trades and industries to undertake technical improvements, and to raise prices of aluminum, tin, copper, cobalt, wolfram, molybdenum and other metals. At the same time, it will lower retail prices of polymer products in order to encourage businesses to use polymers in place of precious metals.

4. New Product Price Policies

The USSR has been very attentive to technical progress in reforming its economic system, and it has striven to narrow the gap between Soviet and Western scientific and technical levels. In order to promote replacement and updating of products, it is necessary to solve the problem of the cost of new products during design, development and small-scale production being higher than the cost of old products. This requires formulation of accurate price policies for new products. Measures the USSR has adopted have been as follows: (1) Every effort to lower rapidly too high profit rates on out-of-date products to promote replacement of the old with the new. (2) Subsidization or price rises for new products during the period of their development so that enterprises can make larger earnings, subsidies being reduced or abolished, or prices lowered once large-scale production begins. (3) Increase in profit rates for sectors where profits are overly low, using profits to advance technology. (4) Equitable division between producer enterprises and user enterprises of profits earned on new products. (5) Use of price limitations, setting upper and lower limits on prices to stimulate new product production or practice of "sliding prices" as, for example, lowering prices by stages and predetermined dates for lowering prices and extent of price decreases in the machinery manufacturing industry.

(Compiled by Foreign Finance Research Office and Basic Theory Research Office, Financial Science Research Institute, Ministry of Finance)

Outline of Reform of Industrial Wholesale Prices in Hungary

In 1968 Hungary reformed its economic system.

The basic features of the new economic system were "organic linking of planned development of the national economy with commodity relationships and the active role of markets on a foundation of socialist ownership of the means of production." Stated simply, this meant, "building of a plan and market entity," making full use of market mechanisms in the planned economy. In this regard, they devoted extremely serious attention to the role of prices.

In its decisions on "1966 Reforms to the Economic System," Hungary pointed out that "the basic role of prices is accurate leadership and stimulation of producers and consumers to make economic decisions to bring about rational use of resources, production that meets market needs, achievement of rapid technical development, popularization of modern products, and formation of an economic consumption structure with balance between supply and demand.

In order to meet needs in reform of the economic system, Hungary also reformed its price system.

Hungarian prices may be divided into producer prices and consumer prices. The former is the price at which enterprises sell goods, which is generally the same as factory prices in China or wholesale prices, in other words. The latter is the price at which consumers buy goods, which is generally the same as retail prices in China.

The emphasis here is on a brief account of the reform of industrial wholesale prices.

1. Envisioned Building of a Relatively Equitable and Relatively Flexible Price System

Price reform in Hungary began with two ideas in mind. One was the requirement that prices themselves be fairly equitable; the other was that the price management system and the price system be fairly flexible in order to adapt to market changes.

Ideal Prices

The Hungarians believed that if prices were to play their role, they would have to be set on the basis of the following three factors: (1) production costs; (2) supply and demand, and (3) national policies. They used these three factors as a basis for formulating so-called "ideal price standards" for goods from every sector, and for figuring out the deviation between prevailing prices and ideal prices in 1968.

A. Please see Table 23 for the variation between prevailing prices and ideal prices (in 1968).

Table 23. Prevailing Prices and Ideal Prices in Several Industrial Sectors in Hungary

(Ideal Price = 100)

	Ideal Price	1968 Price
Heavy industry and engineering	100	110
Light industry	100	115
Food industry	100	94
Industry total	100	106

B. The variation between prevailing prices and ideal prices of articles used in daily life (in 1968) is shown in Table 24.

Table 24. Table Showing Variation Between Prevailing Prices and Ideal Prices of Articles Used in Daily Life in Hungary

(Ideal Price = 100)

	Ideal Price	1968 Price
Coal	100	55
Electric power	100	82
All kinds of industrial consumer goods	100	135
Engineering products	100	118
Light industry products	100	132
Monopoly food products (tobacco, alcoholic beverages)	100	120 - 50
Nonmonopoly food products (meat, milk, bread)	100	70 - 90
Construction materials	100	126
Communications and transportation	100	74
Housing rent	100	30

The Hungarian reformers viewed reformulation of prevailing prices in accordance with ideal prices to be a long-range objective requiring 10 to 15 years.

Flexible Price Control System

The Hungarians believed that since production costs and supply and demand changed regularly, national price formulation should be fairly flexible; the entire price system should be somewhat more flexible. However, a fairly free price system was gradually instituted to take the place of the official price system.

In the new price system, the following forms of price regulation were employed:

A. Fixed prices: For example, prices of basic raw materials, of basic consumer goods, and in basic service trades were set by the State Materials and Pricing Bureau.

B. Negotiated prices limited by official prices: For example, prices in the construction industry, for some raw materials, and most consumer goods. Official price limitations were of two kinds: One was the setting of a maximum price, and the other was floating prices, the amount of fluctuation up and down being set.

C. Free prices: These were set by enterprises themselves. Beginning in 1973, an enterprise had to request approval in order to raise prices. If the State Materials and Pricing Bureau felt reasons were inadequate, it would refuse the request.

Following institution of the new price system, the state annually issued to all units price breakdowns, official prices and reference prices for all goods. Authority for revisions was vested in the State Materials and Pricing Bureau.

The year 1968 was the first year of reform, and different price patterns at that time were roughly as follows: For raw and processed materials, and for semiprocessed goods used in industrial products, 30 percent of prices were fixed prices, 42 percent were maximum prices or floating prices, and 28 percent were free prices. For finished goods, 19 percent were fixed prices, 3 percent were maximum prices or floating prices, and 78 percent were free prices. For consumer goods, 20 percent were fixed prices, 30 percent were maximum prices or floating prices, and 50 percent were free prices.

3. Originally Envisioned Reform Goals Not Completely Realized.

Two Stages

Hungary's new price system has been in being for 12 years, a period that may be divided into two stages for purposes of explaining implementation.

The first stage. During the period from 1968 to 1972, changes in prices were basically in accord with plan requirements. During these 5 years, producer prices rose 9.8 percent (between 1957 and 1967, industrial product producer prices had increased 4.4 percent annually). The original amount of increase set by plan was maintained both overall and in yearly extent of increase (an average annual 2 percent increase).

Central government readjustments of price ratios during this period solved several price problems that had impeded development of production. First was solution to the problem of proportional imbalance in the national economy resulting from inequitable prices that caused enterprises not to want to produce low-priced products that yielded little profit. For example, ignoring of production costs in the service trades and for construction materials, prices being set too low resulting in these trades and industries not being able to develop was a problem in this category. Price readjustments promoted modernization of production in producing industries, a rise in quality, and increase in colors, designs and styles of goods. Hungarian officials felt this stage in reform of the price system had been a success.

The second stage. International market prices skyrocketed after 1973 throwing Hungary's various ideas for price reform into confusion.

After criticizing mistaken policies in the one-sided development of heavy industry, Hungary turned toward the building of a processing industry structure for energy and raw and finished materials for which the country was largely dependent on imports. Fifty percent of Hungary's national income and 40 percent of its gross domestic output value derived from foreign trade. More than half of its energy came from imports, and one-third of its products had to be sold abroad. This program brought advantages to Hungary for a time. However, following the petroleum crisis of 1973 when international markets were mercurial and prices of imported fuel, raw and processed materials, and of machinery and equipment skyrocketed, and prices of exports fell far behind, Hungary suffered very great losses in the exchange ratio between imports and exports. This was a major reason for Hungary's economic troubles, and it was reflected in domestic production prices. Domestic production prices could not keep up with the rise in prices of imported raw materials, and prices of consumer goods could not keep up with production expenses and the rise in agricultural and product procurement prices. In order to escape from this predicament, Hungary adopted two different countermeasures in price policies. First it instituted "two separations and price subsidies." This policy was abandoned because the treasury was unable to bear the subsidy burden, and now a change has been made to "two linkups and abolition of government subsidies." What the result will be remains to be seen.

Two Separations and Price Subsidies

After international market prices skyrocketed in 1973, Hungary assessed the situation wrongly, believing this episode of price rises would pass quickly. At the same time, in order to stabilize domestic markets and avoid upsetting people's minds, it adopted policies that incorporated most of the bad effects of international market prices.

State subsidization of prices may be divided largely into import price subsidies and consumer goods price subsidies. In addition, there were agricultural product price subsidies and export subsidies.

Let us talk about import price subsidies first.

The budget showed the disjointedness between domestic prices and international market prices with regard to import price subsidies. The subsidy situation from 1971 to 1975 was as shown in Table 25.

Table 25. Table Showing Hungarian Budget for Import Price Subsidies

Year	1971	1972	1973	1974	1975
Subsidy (100 million forints)	20	14	60	280	280

Budget subsidies of imports were concentrated on three large categories of goods as follows:

A. Raw material subsidies: 1 billion forints in 1972 and 1.5 billion forints in 1974.

B. Power sources subsidies: 2 billion forints in 1973, and a billion forints in 1974. Despite readjustments in power sources prices in 1975, subsidies were greater than 8 billion forints nevertheless.

C. Food subsidies: 1 billion forints in 1973, and more than 9 billion forints beginning in 1975.

Large-scale subsidization of imports increased government financial expenditures. In 1973, government subsidies amounted to 3 billion forints, and in 1974 they suddenly increased to 28 billion forints. A partial increase in production prices in 1975 reduced budgeted import price subsidies. Even so, import subsidies in 1975 still came to 28 billion forints, which was approximately 9 percent of government financial revenues. Only after the 1976 readjustment of production prices did import price subsidies decline greatly.

Now for a discussion of consumption price subsidies.

After the rise in world market prices and domestic production prices, the state made some readjustments in consumption prices, but it did not eradicate the serious disjointedness between consumption prices and production prices. Consumption prices remained very greatly lower than production expenses. Government subsidies of consumption prices increased from 1.5 billion forints in 1969 to 4.4 billion forints in 1978, or 13 percent of total consumption, which was 11 percent more than government financial revenues and vastly more than national circulation tax revenues for the year. Only following the tremendous readjustment of consumption prices in 1979 did consumption price subsidies decline greatly.

The "two separations" price policy adopted by Hungary. Oversubsidization resulted not only in deficits, but enterprises rested on government subsidies, and this was bad for spurring enterprises on to increase productivity rates and improving techniques.

Two Linkages and Cancellation of Price Subsidies

In order to meet changes in work market price ratios, in 1975 Hungary proposed the need for producer prices to be closer to value, and to link consumer prices and producer prices. At the same time, it required that domestic market prices be linked to international market prices, canceling or reducing subsidies. It had as a long-range goal making the forint gradually become a freely convertible currency. This policy was gradually carried out beginning in 1976. Progress was slow, however, and results were not remarkable by any means. In 1980, they further strengthened the dovetailing of consumer prices and producer prices, while simultaneously producer prices began to institute a "competitive price" system.

Such a price system required that domestic prices be able to reflect more realistically than formerly the unremittably changing price ratios in world markets, meaning that domestic prices for fuel, raw materials and semi-manufactures would be set in terms of nonruble settled import prices, and that for competitive industrial sector prices of semifinished goods would be set according to nonruble settled export prices. This required a contraction of the scope of consumer price subsidies and a lowering of the degree of such subsidization.

These competitive prices had a bearing on 40 percent of social production and on 73 percent of industrial production. These prices were characterized by domestic prices following closely on the heels of changes in international market prices. International market price assessments became basic standards for enterprise profits and economic sense. They forced enterprises to increase efficiency and to save raw materials and power.

The result was that enterprises with high export prices made large profits, while some other enterprises made small profits or incurred losses. They might also incur losses in domestic markets. Profits of enterprises that calculated well might increase 20 to 30 percent, while some enterprises lost by 20 to 25 percent. In recognition that enterprises with large losses would find it difficult to achieve balance within 1 or 2 years, the new price system was gradually instituted. In 1980, the state ruled that domestic prices would assure a 3 percent profit for those enterprises that were not doing well. In 1981, it guaranteed them only a 1 percent profit. In 1982, it made no guarantees at all. Thus, by 1984 or 1985, domestic prices would be the same as international price standards, enterprises thereby having a 4 to 5-year adaptation process.

The competitive price system was not suited to agriculture, the food industry, the construction industry, the building materials industry or to the service trades. However, these trades and industries also needed a strict pricing system. As the price system changed, free prices would also increase proportionally among the various price forms, and fixed official prices would proportionally decline. Quite a few goods that had been sold at fixed official prices would then shift to maximum price, floating price or free price.

Following institution of competitive prices and proportional increase in free prices, budgeted price subsidies gradually declined on their own accord, thereby helping balance public fund receipts and expenditures.

But this new price policy had the following problems:

A. It was bad for international competition. In instituting competitive prices, after linking domestic prices with international market price ratios, when serious inflation took place in international markets, the forint rose in value as Hungary had currently envisioned, and Hungarian exports, which were denominated in dollars, rose in price across the board. But this price rise hurt Hungary's competition in international markets, and competition in international markets happened to be one of Hungary's major objectives.

B. Contradiction between fixed prices and free prices. Some enterprises sold goods at fixed prices but bought raw materials and fuel at free prices. When prices of raw materials and fuel rose, production expenses climbed somewhat and profits declined. If raw materials and fuel were bought at fixed prices and goods sold at free prices, enterprises would make more profit. Most of the enterprises in which earnings declined produced raw materials and fuel. Because prices of their products were stable, processing industry enterprises profits and earnings frequently rose because they sold their products at free prices. Processing industry enterprise profits and earnings frequently rose because they sold most of their products at free prices. A fairly large contradiction existed here.

C. The two linkages might bring about a rise in prices of consumer goods and a decline in staff member and worker real standards of living. In 1979, Hungary raised prices several times, and the one in July, in particular, was a price rise broader in scope and greater in degree than any since the founding of the nation. This price rise alone increased food prices 20 percent. Meat prices rose 30 percent, milk and milk product prices rose 20 percent, sugar prices rose 34 percent. As a result, consumption prices for the whole year rose 9 percent, which was much much more than the originally planned 4.7 to 4.9 percent. Even though the state resorted to some wage and income subsidy measures, as far as the inhabitants were concerned, actually gains were less than losses. The price rises affected various levels of the public to varying degrees, and the living standards of some inhabitants declined. Clearly, following the "two linkages," whether consumer goods prices could be stabilized was a very big question.

(Compiled by Liang Wuxia [2733 3541 3838])

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